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UNITED STATES/MEXICO INTERNATIONAL AGRICULTURAL TRADE SITUATION

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

LAS CRUCES, NM
JANUARY 10, 1990

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UNITED STATES/MEXICO INTERNATIONAL AGRICULTURAL TRADE SITUATION

WEDNESDAY, JANUARY 10, 1990

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Las Cruces, NM.

The committee met, pursuant to notice, at 8:23 a.m., in the Dona Ana Room, Corbett Center, New Mexico State University, Las Cruces, NM, Hon. Pete Domenici presiding.

Present: Senator Domenici.

Staff present: G. William Hoagland, minority staff director; and Arley Williams, senior analyst for agriculture and national resources.

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. Could I have your attention, please. Thank you very much. Let me welcome everyone who has taken time to join us here at this Budget Committee hearing. Senator Sasser, the Chairman of the Committee, extends his best wishes for this hearing and has indicated his genuine enthusiasm for what we are going to try to put in the record as one of the first meetings of the Budget Committee of the United States Senate. Some might wonder what does this have to do with the budget, and we will try to weave that in for you in just a minute. Let me just give you a couple of housekeeping chores.

If we get to a point where any of you are going to ask questions or comment, I would just ask, for the reporter's sake, if you would identify yourself so that it makes his life a little bit easier.

We have a number of elected officials. Rather than mention each of you by name, let me just thank you. Those who serve in positions such as commissioners, county commissioners, those who are in the state legislature, senators and representatives that are here, thank you very much for attending. And to the rest of you from this part of New Mexico, government officials, business people, thank you very much for attending.

We are going to try to minimize the use of your time and my time and everyone that is here by trying to keep this hearing on schedule. We have three panels. I think that is going to give them plenty of time to express their views on subjects that we have asked them to talk about.

Let me open this by suggesting to the Americans who are here—the New Mexicans that are here—that we read a lot these days, and we see a lot on television about the dramatic changes that are occurring in Eastern Europe—the Berlin Wall, the apparent quest for freedom and some major changes in the way economics were handled so there is a bit more prosperity for those people in Eastern Europe.

I personally think that while that is getting all the headlines, south of here, in Mexico, a very quiet revolution is taking place—a very positive, quiet revolution. We now have begun to get acquainted with President Carlos Salinas in Washington—I understand and appreciate a very young man—41 years old, to my recollection. He, in my opinion, is moving Mexico in an economic development or growth cycle that, if he succeeds—and less than the first year has been historic enough to at least be optimistic, he is going to have a degree of success.

I would like to say, just for openers, that he may indeed go down in history as the turning point political leader in all of Mexico's history. And I might just tell you, that's what makes this hearing important.

This young president has decided that the Mexican people are going to share in the prosperity that they have grown accustomed to seeing elsewhere, but not in their own backyards. He has decided that that will be done by moving their country in very different directions from the way they have been going from a standpoint of economic policy.

The results already are, to use a word that I like, dynamite. Their inflation rate was, on a number of occasions in the past 5 years, in excess of 100 percent; in fact, on a couple of occasions, passed the 150-percent mark. Good news as of the last couple of days is that his goal of getting it below 20 has been achieved.

They need to attract capital and stop the flight of their capital. We all know that does not happen just because somebody gives a speech. It happens because somebody in a high position of influence changes policies, and he has. The investment in Mexico is beginning to move from around the world in a dramatic way, and the flight of capital is in a reverse direction moving back to Mexico. His privatization of a number of their major public sector institutions is dramatic. Starting with airlines, he's accomplished that. His next one was the telephone system, and that's on the way. And he's done it in a way without losing, apparently, his political base. That is always tough for politicians and certainly tough for a Mexican leader.

Now if all of this occurs and Mexico becomes what he wants it to be, a country that has continued growth and prosperity and adding to its GNP in a dramatic way—it means jobs in Mexico for Mexicans. It means the production of goods and services and things of wealth in Mexico by Mexicans. As our neighbor, they are already a major trading partner. But it means that while Europe is ecstatic about Europe 1992, we have not yet visualized what we might be saying about our hemisphere. But with Canada and a free-trade agreement there and the United States seeking to move ahead in sustained productivity and with Mexico on the south doing what they're doing, you know, we may have our own little American—if not 1992, maybe 1998—we may have our commonality of relationships which will be an enormous rival. In fact, while I know there is no official position on this, the idea of having some kind of a free-trade relationship in this continent was nothing more than a dream 7 or 8 years ago. We have done it with Canada. I do not want to argue with executives, be it was our own president or Mexico's, but I can see us moving in the direction of a free-trade agreement with Mexico sometime in the future. In the meantime, it is obvious that the bilateral trade between these two countries is now $55 billion. That is our third largest. In agriculture alone, which is part of our hearing here, it is about $1.5 billion. We know the foreign debt is a big issue in the United States and is part of our budgetary concern because, are we going to have to, as taxpayers, substantially contribute to an international bailout of some sort. We compliment Mexico here, also, and perhaps we will hear a bit about how the refinancing of their debt is working. This new president understood that as well, and set that country on a path rather quickly to take advantage of the so-called Brady Plan of the United States to get their financial international debt house in order.

So you add all that, and the fact that we are a border state, and the fact that they are making some dramatic changes in agriculture. Obviously, they have had some changes in their Cabinet on agriculture just recently in the Republic of Mexico. We will hear from somebody who works in that department here today. I am hopeful he will talk about the new 12-point plan that Mexico's new president—President Salinas—has just elaborated over the weekend.

Their prosperity has something to do with our future and vice versa, and it certainly could have something to do with our economics and that has a lot to do with our budget. Since New Mexicans are concerned about our border relationships and perhaps even wondering whether we will ever share in the twin plant prosperity or other economic prosperity relationships, I thought it might be good to set the framework today that Mexico is on the move. The president of Mexico says it very nicely; he very much would like to be selling and importing products, while keeping his people at home with jobs. That is a very interesting theme, and I think all of Mexico should be attentive to that. That is a marvelous goal.

Having said that, today we are going to break our hearing into three parts. The first part is going to have more to do with the macroeconomics—the general trend of things—with a little bit about the twin plant concept as part of the economic activity between the two countries. Then we will move to a very, very important subject: international agricultural trade. I am hopeful we will not get bogged down on the issues of the recent past where we had some problems with some of the activities on the part of Mexican agriculture department. I think we have worked most of those out including our problems at the Columbus port of entry.

Generally, it should be obvious that the agricultural trade situation has got to get better between the two countries, and we hope to hear about that from our friends from Mexico. Then we will hear from the Department of Agriculture of the United States. You all know, your country, America, is going to have a new farm bill next year. I say to all of you who are in agriculture, the President of United States expects the overall costs of the agriculture program to be reduced next year. He is proposing between a $1 and a $1.5 billion reduction in the cost of the Commodity Credit Corporation of our country. I do not know how it will come out, but there will be a lot of negotiating. The goal is not to hurt the farmer; the goal, as I understand it, is to give them more flexibility with the hope that production and flexibility will make up for some of the lowering of Federal subsidies and Federal payments. That is important, too, and we will talk a little bit about that here today.

Then, obviously, you cannot talk about this border situation without discussing the issue of cattle and other products as they move back and forth. Our last panel will talk about that aspect of the trade between the two countries.

So I hope, with that, you have my ideas on the subject. I repeat—and I say this without any trepidation and with a great deal of pride—that I have grown to know the president of Mexico. I hope I will get to know him even better, because I think he has a real chance of being one of the dynamic leaders in this movement toward both pluralism and economic prosperity in countries that have not participated in the wealth and growth activities of which the United States has been so proud. I believe he is making these kinds of hard choices because he wants Mexico to share in that prosperity, and I think that is exciting for us.

I personally want to state for the record that I had a very difficult time in the past, even as one Senator from a border state, relating intimately with the government of Mexico and working with them. I do not find that to be the case now. I hope to find more time as I serve as your United States Senator to involve myself more in relationships with Mexico and in making those relationships better and encouraging the kind of positive action that this president is taking for his people.

With that, let me quickly introduce the first panel. We have with us—and he will testify first—Dr. John Sweeney. He is right here in the middle. He is the financial attache to the United States Embassy in Mexico. He is not part of the American Embassy in the literal sense; he works for the United States Treasury Department, so his boss is Nicholas Brady. But he is assigned there because of the economic activities and the financial relationship between the countries. He is a man of great longevity within the department and has a very good background, and from talking with him before this hearing, I think he has a very good feel for what is going on in Mexico. He is going to give us a general overview of how the United States Treasury Department, through his eyes in the Embassy, see the development of new policies in Mexico.

Then, we will have the director of the Border Research Institute, Maria Telles-McGeagh. You all know her. And we have Billy Mitchell, vice-president of marketing for Grupo Bermudez from Cd. Juáret, Chihuahua. We welcome you, Billy, and thank you for coming.

We are going to proceed in the order I just introduced the witnesses, so if you would start, John, we would be pleased to hear from you.

STATEMENT OF DR. JOHN SWEENEY, FINANCIAL ATTACHE AND TREASURY REPRESENTATIVE, UNITED STATES EMBASSY, MEXICO, D.F.

Mr. SWEENEY. Thank you very much Senator. First of all, I want to thank you for inviting the Treasury Department to participate in these hearings. We consider them to be very important hearings, and I hope that they will bear good fruit.

Secondly, I would like to second your opinion on President Salinas in Mexico. I think he heralds a period of very important change in that country. He is an individual who wants to bring Mexico into the 21st century as a dynamic, industrial economy. I think the people that he has chosen to make economic policy, to carry it out in that country, are extremely well qualified, and I believe that Mexico is going to be one of the most dynamic countries in the world in the 1990's.

To give you an idea of the size of the problems that the president and his team were facing, I would take us back to 1987——

Senator DOMENICI. Would you hold for just a second. Can you hear in the back? Maybe if you'll pull the mike just a little bit closer, please.

Mr. SWEENEY. Certainly. I would like to go back to the economic problems that the government was facing in 1987 when they introduced the economic solidarity pact which, basically, has been the root of their economic policy for the past several years. In 1987, the rate of inflation in Mexico was 160 percent. The fiscal deficit—the public sector deficit—would be slightly more than 16 percent of GDP. And to give people an idea of what that means, if we in the United States had a deficit that size, it would be about $750 billion. That is the kind of a problem that Mexico was facing at that point. The stock market index between October and November of 1987 fell by 75 percent and there was considerable speculation against the peso, which is a plague that the Mexican government has faced for many, many decades. Capital flight was starting to pick up.

In December of that year, the government decided to take the bull by the horns. They introduced the economic solidarity pact which was a combination of classical orthodox economic policies, i.e. tight monetary/fiscal policies, and what we call heterodox policies. They involve some wage and price controls and a freezing of the exchange rate.

Most people in the country did not believe that these measures would be successful. There was an awful lot of skepticism when they were introduced, and people did not feel that they would stay in effect for any length of time. That has proven not to be the case. The Mexican authorities have followed through with the pact. They have followed through with the very tight fiscal/monetary policies with an exchange rate policy which has opened up the economy and allowed imports to come in but at the same time allow the reasonable rate of growth in exports as well.

Just to give you an idea of the progress that they have made over the past 2 years, inflation last year, as you pointed out, Senator, was 19.7 percent. That is down from 160 percent 2 years ago. They have made very substantial strides in privatization as you pointed out. They have sold two previously government-owned airlines. Over the past 6 years, the number of state-owned companies has fallen from slightly more than 1,100 to under 400 now. They are making an effort, this year, to sell the telephone company, which is one of the largest state-owned companies in the world. As I read it, there will be U.S. participation. There are many, many U.S. companies who are interested in investing, and I would be willing to bet that U.S. companies will end up with a share of Telefonos de Mexico. Some of the even more sacred sectors such as Conasupo, which is the basic food supply, they are selling off portions of that, and they are also offering some of the secondary petrochemical industries for foreign investment. I find these to be very, very encouraging developments in Mexico, and I believe the president and his team are absolutely committed. We are not going to see any turnaround or change in policy during his administration.

For these reasons, the U.S. Treasury Department is convinced that Mexico deserves the support of the United States Government. We worked very, very closely with the Mexico authorities in developing the so-called Brady Plan—the debt strategy. To tell you how closely we worked with them, between December of 1987 and July of 1988 Secretary Brady met with Secretary Aspe, his counterpart, 24 times which was by far the most of any finance minister in the world.

The Mexican position on the debt had a very important influence on the way that the plan was evolved—the way that we eventually came out with the strategy. Once the strategy was announced in March of last year, the Mexican authorities began negotiating very intensely with their commercial bank creditors, and in July of last year, they reached an agreement on how the debt plan would be worked out. We calculate that once the debt package is signed—and we believe that that will happen within the next few weeks—it should reduce the public sector debt by the equivalent of about $8 billion. It should reduce their debt servicing payments—interest payments—by nearly $2 billion a year.

There has been a lot of debate as to whether that is sufficient to help Mexico. I am thoroughly convinced that it is sufficient, and that has been evidenced by the reaction of private capital in the Mexican economy. There has been a very large reflow of capital into the country. There has been a significant amount of foreign investment. In 1989, we estimate that there was a little over $2 billion that flowed into the country in foreign investment. The capital reflows to invest in securities there and to invest in Mexican private capital probably were considerably in excess of that, and we believe that it has been an important element in reinstilling confidence in macroeconomic policy management in the country and in the government's desire to bring about structural reform.

I might mention that, since in-bound entities are very important to the State of New Mexico, this probably has been the single most dynamic sector in the Mexican economy. It has been growing over the past 3 years by about 30 percent a year, and last year the Mexican government estimated that the net revenues were about $3.1 billion. This, in my opinion, is a very important opportunity for the border states in the United States to take advantage of because I think the Government's going to continue to promote those in-bond industries because of the major benefits, not only in terms of finance, but also in terms of employment generation for Mexico.

Senator DOMENICI. Now when you use the word "in-bond," we have heretofore been using two other words. I guess this is the third one we have used, maquiladora program and twin plants, and that is a third synonym.

Mr. SWEENEY. That is a third synonym. That is right, Senator. I do not want to go on too long, but let me just wrap up by saying I have lived in Mexico now for 6 years, and I have never seen a situation like exists now. I believe that the country really is poised to take off. Economic growth has started again. Last year, there was about 3-percent growth in GDP. The President is very aware that he cannot let the controls off yet, that he has to control aggregate demand in the country. They are projecting a growth rate this year of about 3½ percent and then for the rest of his Administration, somewhere between 4 and 6 percent a year. I believe that the government can achieve that in a noninflationary, way which is really what they are trying to do.

He has a group of young, U.S.-educated people running the Finance Ministry, running the Planning Ministry, running the Ministry of Commerce. and I believe that they really are on the right track. We are going to see some very important changes in Mexico over the next few years. Thank you.

Senator DOMENICI. I think that a number of people entered after my opening remarks and after this witness started, and I saw a couple trying to see who it was. This is John Sweeney. He is attached to the United States Embassy in Mexico which might cause some to think he is part of the United States State Department, but that is not true. He is the financial attache which means he works for Nicholas Brady in the Treasury Department. He has been there for 6 years, and since a part of this hearing has to do with the Mexican debt and their economy and its future, we were very pleased that the Treasury Department would accommodate and send Dr. Sweeney here for this hearing. We will ask some questions of you shortly; but could I just ask one before I proceed to Maria? While the world is heralding all the changes occurring in Europe, I personally am equally, if not more, impressed with the changes occurring just south of here under President Carlos Salinas' leadership. Do you have a sense, as to how the Secretary of Treasury feels about the relationship between Mexico and the United States in the areas of international debt and the way they are handling things?

Mr. SWEENEY. Yes, sir. The Secretary of Treasury considers Mexico to be a very, very central part of our debt strategy, and much of the thinking that went into the Brady Plan was helped in the formulation by consultation of the Mexican authorities. He is a close, personal friend of Secretary Aspe, and I think they get along very well. I think he believes that Mexico is taking the kinds of steps that the U.S. should support—the kinds of macroeconomic policies that the U.S. should support. It is not just in the last 6 months or so; it is really in a period of 3 years, now, that they have really been moving in the right direction. We are convinced that they are going to continue, and he is very, very supportive of that.

Senator DOMENICI. Before you testify, Maria, let me just say to everyone, Dr. Sweeney used the word "in-bond industries," and I suggest that we call them twin plants or maquiladoras. I have recently got some numbers on this that should be rather humbling to New Mexicans. You know, we are a border state, and I have just found out that Alaska has more maquiladora activity than New Mexico. They are pretty far away; we are pretty close. I also concur that economic development activity on the part of Mexico will grow. I believe foreign investors will invest in it. And so I think it does behoove us to move ahead and see whether New Mexico can get its share. I would say the need for border crossings in New Mexico and the infrastructure attendant it is so important with Juárez and El Paso almost suffering from strangulation. It is imperative, and we will all continue to work on that. Now, Maria, would you please share your thoughts with us as they pertain to our hearing here.

STATEMENT OF MARIA TELLES-McGEAGH, DIRECTOR, BORDER RESEARCH INSTITUTE, NEW MEXICO STATE UNIVERSITY, LAS CRUCES, NM

Ms. TELLES-MCGEAGH. Yes, thank you, Senator, and good morning to everyone and to you, specifically. Thank you for the invitation to participate in this field hearing that you have extended to the Border Research Institute which I represent as its director.

In the last 7 years, the only sectors of the Mexican economy to show both significant and sustained growth have been those directly linked with our national economy. That is the maquilas, the oil and tourism sectors. These, along with direct foreign investments and a significant reduction in Mexico's annual foreign debt service, will have to be the key movers toward a return to at least moderate rates of balanced real growth. Of the $100.38 billion that Mexico owes to foreign lenders, about 80 percent is to the American banks. Mexico's obvious dilemma is how to solve its debt problem without creating damaging political and social problems. As it has moved toward a more open foreign trade policy, this policy appears to be accelerating under the administration of President Carlos Salinas de Gortari. By the way, this should not be taken as a sign of any full-fledged North American common market in the foreseeable future.

In summary fashion, the government's economic stabilization and growth pact put into effect by Salinas is an ambitious and serious plan to try to bring Mexico back from the brink in about three years' time, provided that world economic factors such as international oil prices, interest rates of private banking credit loans do not suffer any sharp twists. Salinas' economic pact, put into effect when he took office December 1, 1988, replaced the economic solidarity pact of the de la Madrid administration.

Aside from the restructuring of the foreign debt and attempts at getting the economy back on track, Mexico's major decisions have related to how open the economy should be regarding foreign investment, trade and financial transactions. This means, largely, how wide should the door be open to U.S. influence in view of the nationalistic position of the ruling political party and the antidependency stance of important sectors of the populous?

Keeping in mind that conflict is a condition in any international economic relationship and that the principal areas of potential conflict stem from each nation's attempt to reap a larger share of the gains from trade and investments, participate in the international economy and yet remain insulated from adverse developments elsewhere and to give, under all circumstances, first priority to internal stabilization of growth, employment, inflation vis-a-vis external balance of payments, we can then appreciate, more so, the types of dilemmas that both the U.S. and Mexico grapple with.

On December 3rd, 1989, the anti-inflation pack agreed by business, labor and agricultural leaders was extended by Salinas' administration until July 31, 1990. Under this economic pact, sector leaders agreed to freeze wages, control prices and regulate currency value. Currently, it is around 2,600 pesos to the dollar. Mexican economists, nevertheless, do not all agree that the pact can sustain economic growth, and some argue that price and currency controls high-rising pressure on food prices and that Mexico needs permanent structural changes. But Salinas has said that in the 1989/1990 Foreign National Development Plan, he aims to maintain growth in three major ways: Consolidation of economic stability, broadening the resources for investment and modernization of productive capacity. Several labor unions have grown impatient, and teachers are demanding higher wages. Also, the opening to international trade and the privatization of parastatal industries are seen as threats by unionized workers who dread being added to the roster of the many unemployed. But Salinas insists that privatization does not place development in hands other than those of the state. Mexico, under President Salinas, has a pragmatic, conservative free government concerned with holding on to power and secondarily, with democracy and with the U.S. policy. Fortunately for Mexico, the only way the PRI will be able to hold on to power is by improving the economy. Salinas has started by denationalizing major industries, busting corrupt union leaders and breaking the power of unions.

So despite the PRI's endless invocation of revolution, the U.S. has no reason to worry that Mexico will go Communist. In fact, Mexico deals with domestic Communists very firmly.

In summary, Salinas' domestic and foreign policy concerns are the same as the United States: Domestic peace, secure borders and improved economy.

Now then, nowhere do the relations between the U.S. and Mexico play a more significant role than on their border, a region that stretches nearly 2,000 miles from San Diego/Tijuana to Brownsville/Matamoros. It must be noted that the interdependency thereof is not limited to economic issues. There is a great deal of interaction and cultural, social and political issues which have important repercussions for both countries.

A look at U.S./Mexico relations as they affect the State of New Mexico in the context of the economic and structural problems that impinge upon the free flow of goods, services and investments between these countries warrants consideration here.

New Mexico sits along what I will refer to as El Paso Del Norte corridor which I take to comprise New Mexico's Dona Ana County, El Paso, Texas, and Juarez, Mexico.

For about the past 20 years, New Mexico has been trying to establish a second port of entry along this Paso Del Norte corridor to complement its border crossing at Columbus/Palomas in Luna County which is more than ready to alleviate the near unbearable congestion at the El Paso/Juarez port.

At this point, let it be acknowledged that U.S. Customs at El Paso have, indeed, been actively trying to keep up with the growth at its border crossings, but unprecedented trade flow, thanks primarily to the maquila industry, generates more border traffic than even the six superbooths that recently were installed at the Americas Bridge can handle.

Mind you, it is not the case of the Customs authorities on both sides of the border not responding to the border business in advance; it is simply a case of running out of space, a structural problem. That is why New Mexico must be sought and permitted to respond to that international demand.

Recently, the governors of the States of New Mexico and Chihuahua with their advisors met to discuss the feasibility of another port of entry in the Juarez vicinity, and wisely enough, the discussion led to the conclusion that of the two viable sites considered, Santa Teresa or Sunland Park/Anapra, the choice was understandably Santa Teresa, which is about 10 miles west of El Paso. This is not to imply that Sunland Park/Anapra was totally discounted. It should not be, for in due time, it can also develop into another port of entry or possibly, a supplementary location for international commerce. At present, however, it is far from being infrastructurally viable. Sunland Park certainly has the work force and potential for development. However, to date, it has not been able to establish a self-sufficient economic base. It relies heavily on Federal, State and county subsidies. Nonetheless, one potential economic resource could very possibly be the business of recycling solid waste.

If approached effectively, this potential money maker could make the Sunland Park border region area an area that would respond to much of its economic needs and be the answer to a problem that is literally growing beyond control nationally and, in some cases, globally. But this is a matter that warrants another forum for further consideration.

I have already mentioned the congestion at the El Paso/Juarez crossing. I have also mentioned the availability of alternative routes through New Mexico. So why the hesitancy to forge ahead in the development of Santa Teresa as well as Columbus? Well, what one side of the border sees as common sense economically may not be seen that way on the other side of the border. At present, there is a bottleneck in the Santa Teresa project. Its developer, Charlie Crowder, whose master plan is the utopic city straddling the border which will combine economic and social well being already has an authorized border crossing for cattle on his land. He is sitting on enough water to take him well into the 21st if not the 22nd century.

As for the Port of Columbus, just recently, as you know, a $3.5 million new port facility was completed. The Columbus International Industrial Park is ready for occupancy, and the road that links Columbus/Palomas to Santa Teresa/El Paso and Júarez is begging to be completed as a paved, full-fledged beltway.

Right now, the primary activity that the Columbus Port serves is as a livestock crossing which also has room for growth and could be supplemented by port activity at the Antelope Wells Port located northwest of Columbus.

Structurally speaking, New Mexico's lag as a fully viable site for international trade with Mexico is due to: (1) Hesitancy by the Mexican government to approve Santa Teresa for export/import of products in addition to its approval as a cattle crossing;

(2) Consolidation of regulatory agencies at ports of entry. Currently, such agencies at the Columbus Port respond to three different regional offices. INS and Customs respond to the El Paso office. FDA responds to the Denver office by way of the Albuquerque office. USDA responds to the Albuquerque office.

(3) Assignment of a full-time veterinarian at the Columbus as well as the Antelope Wells Port.

(4) That U.S./Mexico governments permit maquila industries to utilize multiple ports for their export and import transactions. Current regulations prohibit this type of international versatility.

Most crucial of all, to both the U.S. and Mexico in the free flow of trade, is transportation. Full truckload shipping, railroads, air and sea transport play a most vital role in the smooth flow of goods across international boundaries. The U.S. problem in dealing with a Pacific Rim country for offshore production is the high cost of transport. This cost is dramatically reduced when the U.S. deals with Mexico.

Undeniably, Mexico still needs to improve its highways between its northern border and its cities in the interior, particularly to its key export/import cities.

Transportation and communication systems which operate efficiently are even more vital when the trading nations require "just in time" delivery schedules.

What I have addressed here to you today is applicable throughout the U.S. and Mexico with regard to promoting a better flow of goods, services and investment between these two countries. By way of immediate interest in the topic, I have addressed these issues as they affect international commerce between the State of New Mexico and Mexico. The Santa Teresa Port and the Columbus Port particularly warrant a concerted effort toward development for the full-capacity benefit of New Mexico's economy which, in turn, is beneficial to Mexico's economy. The key factors are quality transportation, a good communication system, industrial park development, adequate infrastructure—particularly housing—and an understanding of each nation's cultural, social and political aspects.

Finally, as an additional mechanism to serve, enhance and expedite commerce, it is essential to rely on a foreign trade zone. This means that any foreign or domestic merchandise not prohibited by law may be taken into the zone to be treated as being in international commerce, and therefore, outside Customs' territory. Within the zone, foreign and domestic materials may enter without a formal Customs entry or the payment of Customs duty or government excise taxes. If the final product is exported from the U.S., the product is not subjected to U.S. duty or Customs tax. And if the final product is imported into the U.S., duty is paid only when the product leaves the foreign trade zone.

Senator DOMENICI. Thank you very much.

Senator DOMENICI. Thank you very much. Let me just ask a question or two before I move to Mr. Mitchell. When you mentioned that economists in Mexico may disagree as to the current economic development policies of Mexico—I think I know the answer but—that's not unexpected; is that right?

Ms. TELLES-MCGEAGH. Exactly.

Senator DOMENICI. We do not have very many American economists that can agree on what the facts are, much less what we are supposed to do. The program that started a couple of years ago and now is really being implemented by President Salinas is a dramatic departure from the past. So you would expect that there would not be absolute unanimity and concurrence in it; would you not?

Ms. TELLES-MCGEAGH. Exactly, yes.

Senator DOMENICI. Do I gather that, whether it is your job as a Border Research Institute director or not, you generally concur that what you see happening in Mexico from the standpoint of increased growth, jobs and stability, that things are moving in a positive direction at this point?

Ms. TELLES-MCGEAGH. Oh, yes, there is no doubt about that. I fully concur with the remarks that you have stated this morning, but I guess I wanted to make a statement for the fact that it is not yet Camelot, but it is perhaps getting closer to it.

Senator DOMENICI. Now let me just take one other point. The point has been made that New Mexico, in terms of ground capability to exchange—to move things, suffers from a lack of border facilities and a lack of transportation facilities. I just would like everyone here to know that if you are frustrated about it as New Mexicans, I am doubly frustrated. Frankly, it is little known that in the last 3 years, the United States Government—and I must say, I don't give any credit for this very positive plan that I'm going to tell you about—I don't give much of it to the executive branch of this government. It has taken 3 years to join the party, they are now present—they are now joining us. But essentially, a little old subcommittee of the United States Senate called Treasury and Postal decided to inject a major upgrading plan for the border. That happened to come from the Senator from Arizona and the Senator from New Mexico. As a matter of fact, we started putting in huge amounts of money. We put in $125 million where the executive branch had asked for $7 or $8 million. It is now developing where the last executive budget said let's continue the modernization of the border crossings into the United States. Since I sit on that subcommittee and put a bunch of money into El Paso, two or three new ones in Texas, a brand-new one in Arizona, and another new one in California, I have a bit of frustration seeing that we have been talking about it for 22 years. That is why we now have money for Santa Teresa if we can get both governments to concur. I do not think we could ever have too many border crossings so I am not discouraged that some are speaking of two. I kind of say the more the merrier. It is sort of our turn.

Let me also address one other issue inherent in the discussion that just took place. It is kind of a theme that we never seem to get things done. Kind of an indecisiveness over the last 10 or 15 years about a new port of entry. Frankly, I am just going to make a prediction. I do not think that indecisiveness is a characteristic of the Carlos Salinas government. I just do not believe they are going to delay decisionmaking. I am not privy to their meetings, but I tell you, from what I have heard, they set goals and then they get them done. So I feel bold enough to tell you that we are going to get some decisions out of Mexico and out of the United States because it is the right thing to do with reference to ports in New Mexico. I truly believe this is not going to be another one of these 20-year cycles with three dedications that never turn into much and cutting ribbons only to find that all we did was turn a few shovels of dirt. I just do not see that. I believe we will get decisions out of both countries, and we will move with a border crossing, if not two, in New Mexico in the very near future. Then New Mexico has a big job because the government does not build all those roads. They might in Mexico, but in our country, we will have to find some ways to do that through our State legislators and through counties and communities that border this.

One last question on the confusion at our borders resulting not from the physical improvements, because we finally have a brand-new port. You indicated that even at that new port of entry, we do not have our different departments acting in harmony and in unison and able to make the kind of decisions that have to be made quickly. Do you know if that been discussed by your group with government agencies, and do they concur that there is a need for improvement between INS and others?

Ms. TELLES-MCGEAGH. I have not had any discussions. I present it to you, Senator, to bring it to the attention of the rest of the Congressional delegation and see what we can do. It is a known fact that what is happening at those two ports is that whenever the need for these agencies arises and the attendant business, as the two ports grow in activity, we, of necessity, will have to have those agencies. That is why, to my way of thinking, it is so difficult for us to move away from the El Paso/Juarez area port of entry because they do have that consolidation. Everyone wants to go through there or, for the most part, prefer to do business there because all the agencies are there. So, yes, I would welcome more discussion.

Senator DOMENICI. We will certainly do that. I think everyone should know the Federal Government's answer is going to be, at this point, somewhat of the chicken and the egg. They are going to say, when there's enough business, we will bring them all together, and there obviously is more than enough in El Paso and their contention will be based on numbers. There is not enough at Columbus or Antelope Wells, and we will have to suggest that if we are going to get this thing going, we need to make it accommodating at the earliest possible time. I appreciate your calling it to our attention. Again, we will work on that. I think it is very, very important.

Ms. TELLES-MCGEAGH. Thank you, Senator. I would like to commend you for all the effort that you have put into promoting the developments along the border and certainly that $6 million earmarked for Santa Teresa. Your work on that crossing is very much appreciated. So I, as a resident of New Mexico, acknowledge all the hard work that you have put into this. Thank you.

Senator **Domenici**. Just my last observation on this, I hope all the New Mexicans that are here understand that when we are speaking of increased activity at the border, if we read the president of Mexico correctly, we are not talking about something that blows only in one direction. We are talking about the fruit of economic development moving in both directions so that as we participate in increased activity moving in our direction, I hope we all understand that that is not going to be supported in Mexico unless what is occurring in Mexico is growth on their part with new jobs and added expectations for their people. That is why it is important that we have the United States Government supporting the policies of a president such as President Salinas who is moving in the direction of sustained productivity and sustained growth without inflation and an opening up of their economy in a very dramatic way. I believe he is going to get a lot of support from the United States. I know many Congressmen have been critical of Mexico in the past—principally because of drug-related activities. I hear most of them very, very solidly supporting the activities of this new president both on the economic front and in his increased cooperation in the area of drugs. I was talking to Dr. Sweeney last night about the drug activities, and, you know, we have been very upset about one major incident in the drug war. He reminds me that we lost an American in that incident, but he also tells me Mexico lost far more. Where we lost one, they may have lost 650 in the same war on drugs. I think it behooves us to see their side and to work with them especially under the circumstances such as we have with this new administration in Mexico.

Now we will take the last witness of the first panel, and then we will take about a 5-minute break and move to the Mexican witness and the Department of Agriculture witness.

Mr. Billy Mitchell, are you prepared to give us a few remarks?

STATEMENT OF BILLY MITCHELL, VICE PRESIDENT, MARKETING, GRUPO BERMUDEZ, CD. JUAREZ, CHIHUAHUA, MEXICO

Mr. **Mitchell**. Yes, sir, Senator.

Senator **Domenici**. Do you have a prepared statement that we might make a part of the record?

Mr. **Mitchell**. Yes, sir, I have a prepared statement, and I have an economic impact report that I would like to make a part of the record. I will give them to you.

Senator **Domenici**. That will be done, and then you summarize your testimony. If you would pull the microphone up a little closer, I think everybody would be able to hear you. Thank you very much.

Mr. **Mitchell**. All right, sir, thank you. I want to say that I appreciate the opportunity to appear before this committee to discuss something that is very vital and important to both the United States and to Mexico, and I am talking about the Maquila Program. What I would like to do is to talk about the incentives that started this program in Mexico with the U.S. Customs regulations. Then I would like to go into the micro and macro effects of this program: Where we are, where we are going, and then cover some of the changes that are taking place in this program.

In mid-1965, the Mexican government instituted the Border Industrialization Program to assist in alleviating the anemic economic conditions that existed in cities along Mexico's northern border with the United States. This program was devised to promote industrial development in Mexico's frontier.

The incentives for this Maquila Program include: (1) Duty-free importation of manufacturing equipment, machinery, materials and supplies that are in Mexico on a temporary basis with only a bond placed on it to assure that if the material or equipment shows up on the Mexican market, the Mexican government can be assured of getting its tariff; (2) Foreigners may control up to 100 percent of their Mexican corporation under the Maquila Program; and (3) The immigration process for issuing work permits for management and technician personnel to work in Mexico has been simplified.

These incentives offered by the Mexican government, along with the U.S. tariff items that, at that time were known as 806.30 and 807, made Mexico competitive with the Far East.

I would like, at this point, to point out there is no treaty between the U.S. and Mexico that set up this Maquila Program. This is a mistake that comes up many times.

As an example of the growth of this industry, in 1969 in Juarez there were 11 maquila plants with 2,300 workers. In 1988, there were 265 plants with 118,000 workers. Currently, there are over 30 plants in Juarez with over 135,000 workers.

To show you some of the impact on the U.S., in 1988 there were 2,500 U.S. companies supporting these 118,000 workers in Juarez with 374,218 U.S. workers involved. This is the impact, and these workers are coming from 49 States of the 50.

Having introduced this maquila industry, I would like to take a micro- and macro-look at the results of the industry and where we are going.

The maquila industry is proof that Mexico and the United States of America and the border states of the U.S.A. can successfully work together for the good of their citizens in their respective countries. Also it has been proven that these citizens can benefit economically and socially. The success of this industry has brought our neighbors closer together in this common effort to better the lives of our people on both sides of the border. It has also highlighted the common problems that exist for both countries and the bordering states. It has made it more obvious how much we can accomplish together if we work for the betterment of all of our people.

Let us take a look at what I am talking about and some of the things that are being done to improve the situation. The industrialization of Northern Mexico has created opportunities for jobs in Mexico and the U.S.A., particularly the border states. There are more opportunities for jobs in the supplier area. The plants in Mexico require basic material to perform their jobs in Mexico. These parts or materials come mostly from the U.S.A. (the Northern, Eastern and Central parts of the U.S.A.) and some of the border states. The opportunity for the border states in getting the suppliers to come from these northern areas to the border is a great opportunity. In 1988, there was roughly $4 billion worth of this material shipped to the maquila plants located in Northern Mexico.

It is necessary for knowledgeable individuals about the supplier situation to get together to put together conferences about "how to become a supplier to the maquila industry in Mexico." These conferences should be approved by the public sector. A close relationship with the Mexican governors of the States adjunct to the border and the U.S. governors of the States adjunct to Mexico is necessary. There have been meetings of this group during which they discuss common problems and how to solve them. They also discuss positive, successful projects and how to enlarge these activities.

There are many areas of common interest that are now highlighted mainly because of the industrialization in this area; one is in the area of the environment on both sides of the border, the disposal of waste, both liquid and solid. Another is education on both sides of the border. With the industrialization, our people must be better educated to take advantage of the job opportunities which already exist and must be prepared for the future high-tech jobs that will be coming to our area if we prepare ourselves.

Let us take a look at some of the very obvious changes that have already taken place all around us. Look at the truck traffic which has been mentioned before on the Cordova Bridge between El Paso and Juarez. When that bridge was built, I will guarantee you that no one dreamed that over 800 trucks a day would be crossing that bridge or that over 37 percent of the traffic on that bridge every day would be industry related. The traffic on the Cordova Bridge probably impacts on other commerce on both sides of the border such as restaurants, shopping and recreational activities.

Consider the traffic on Interstate 10, how it has increased to over 168 million cars a year. Look at the population shift to the Southwest in the last 10 years in the U.S.A. Look at the population growth in Juarez and other Mexican border cities that has taken place. All of these factors require some action on the part of both countries because they impact on both countries. Mexico and the United States must work together to find solutions to problems that are caused by the activities previously slighted. It is absolutely essential for both nations to cooperate and coordinate with each other, while maintaining their own sovereignty to retain and maintain the best relations that ever existed between two nations.

With the global economy that exists and the formulation of the three spheres of influence, Asian, North American and European, that is rapidly developing, we must adjust our thinking to global. Just imagine the magnitude of opportunities that are looking us in the face right now. Just take a map and locate where this area is and how we are strategically located in this global scenario. It is mind-boggling the opportunities that exist which will improve this area physically, socially and economically. Can you visualize this area being a world commerce center? All of this is possible if we start to think and plan in this direction right now.

We must be thinking of some sort of mechanism or commission headed by ambassadors from each nation with authority and direction from Mexico City federal government and Washington, DC, Federal Government.

This commission would have authority to work on and solve problems in the areas of education, population movement and control, safety, law enforcement, limited judicial matters, social problems such as housing, the environment, infrastructure, transportation, immigration and trade matters, to name just a few.

We have gone from the microview to the macroview in these few moments. But this kind of thinking is brought about by the establishment of a phenomenon such as the Mexican industrialization program or as we call it, the maquila industry. We can now see how it is possible for the United States and Mexico to become industrial giants in this global economic world. I can visualize the area becoming an education center and a high-tech manufacturing area with a very bright future for our children and grandchildren.

To foster better relations between the United States of America and Republic of Mexico, a closer day-to-day working relationship must be established at the highest levels of both governments. A mutual respect for all of the people of both countries must be fostered and encouraged by all responsible parties of both countries. I believe that both governments should sponsor such things as seminars and training sessions on how to work with one another for such institutions as the press, the educational institutions and agencies that work with one another on a day-to-day basis.

We need to better understand the different cultures, customs, political systems and languages. These are only basic truths in a civilized Christian society.

Now we have talked about the maquila industry. There are some current changes that are taking place in the maquila industry. I submit that we are going to have, in the very near future, and it has already begun—more Mexican participation along with America. Joint ventures are being formed. We are going into manufacturing as joint ventures as opposed just to developing plants for large organizations.

So the opportunities from the standpoint of supplier jobs on the border are mind-boggling. If we put our minds to it, we can provide a much better world for the people that live on the border. Thank you, sir.

Senator DOMENICI. Thank you very much.

[The prepared statement and economic impact report of Mr. Mitchell follow:]

PREPARED STATEMENT OF BILLY MITCHELL, VICE PRESIDENT, MARKETING, GRUPO BERMUDEZ, CD. JUAREZ, CHIHUAHUA, MEXICO

INTRODUCTION

In mid-1965 the Mexican Government instituted the Border Industrialization Program, to assist in alleviating the anemic economic conditions that existed in cities along Mexico's Northern Border with the United States. This program was devised to promote Industrial development in Mexico's Frontier.

The incentives outlined in the Mexican Industrialization Program (Maquila Program) include:

(1) Duty free importation of manufacturing equipment, machinery, materials and supplies on a temporary basis. Only a bond is placed to assure that if the material

or equipment shows up on the Mexican Market, the Mexican Government will get its tariff. Only this material and equipment is in Mexico on a temporary basis, and must actually be shipped out of Mexico.

(2) Foreigners may own and control up to 100% of their *Mexican Corporation.*

(3) The Immigration process for issuing work permits has been simplified for the management and technician personnel to receive work permits to work in Mexico.

These incentives offered by the Mexican Government along with the U.S. Tariff items 806.30, 807, made Mexico competitive with the Far East.

Having introduced the Maquila Industry I would like to take a micro, macro look at the results of this industry and where we are going:

The Maquila Industry is proof that Mexico and the United States of America, and the Border States in the U.S.A. can successfully work together for the good of their citizens in their respective countries. Also it has been proven that these citizens can benefit economically and socially. The success this industry has brought we neighbors closer together in this common effort to better the lives of our people on both sides of the border. It has also highlighted the common problems that exist for both countries and states. It has made it more obvious how much we can accomplish together if we work for the betterment of all our people.

Let us take a look at what I am talking about and some of the things that are being done to improve the situtation. The industrialization of Northern Mexico has created opportunities for jobs in Mexico and the U.S.A. particularly the Border States. There are more opportunities for jobs, in the supplier area. The plants in Mexico require basic material to perform their job in Mexico. These parts or materials come mostly from the U.S.A. (the Northern Eastern and Central part of the U.S.A.) The opportunity for the Border States is in getting the suppliers to come from these areas. In 1988 there was roughly $4 billion worth of this material shipped to the Maquila plants located in Northern Mexico.

It's necessary for knowledgeable individuals about the supplier situation, to work together, to put together conferences, about "how to become a supplier to the Maquila industry in Mexico". These conferences should be approved by the public sector (Political and etc.). Close relationship with the Mexican governors of states adjunct to the Border. Also with governors of other Mexican states bordering on the U.S.A. There have been meetings between these governors on both sides of the border to discuss common problems and how to solve them, also to discuss positive, successful projects and how to enlarge these activities.

There are many areas of common interest that are now highlighted mainly because of the industrialization in this area; one is in the area of the environment on both sides of the border, the disposal of waste both toxic liquid and solid. Another is education on both sides of the border. With the industrialization our people must be better educated to take advantage of the job opportunities that are already existing and to be prepared for the future high tech jobs that will be coming to our area (if we prepare ourselves).

Let us take a look at some very obvious changes that have already taken place all around us. Look at the truck traffic on the Cordova Bridge between El Paso and Juarez. When that bridge was built, I'll guarantee you that no one dreamed that over 800 trucks a day would be crossing that bridge or that over 37% of the traffic on that bridge everyday would be industry related. The traffic on the Cordova Bridge probably impacts on other commerce on both sides, such as restaurant, shopping and recreational activities.

Consider the traffic on Interstate 10 how it has increased to over 168 million cars a year. Look at the population shift to the Southwest in the last 10 years in the U.S.A. Look at the population growth in Juarez, and other Mexican border cities, and has taken place. All of these factors require some action on the part of both countries because they impact on both countries. Mexico and the United States must work together to find solutions to problems that are caused by the activities previously cited. It is absolutely essential for both nations to cooperate and coordinate with each other, maintaining their own sovereignty, to retain and maintain the best relations that ever existed between two nations.

With the global economy that exist and the formulation of the (3) three spheres of influence, Asian, North American and European, that is rapidly developing, we must be adjusting our thinking to global. Just imagine that magnitude of opportunities that are looking us in the face right now. Take a map and locate where this area we are in, is strategically located in this global scenario. It is mind boggling the opportunities that exist, that will improve this area physically, socially and economically. Can you visualize this area being a world commerce center. All of this is possible if we start to think and plan in this direction right now.

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We have gone from the micro view to the macro view in these few moments. But this kind of thinking has been brought about by the establishment of a phenomena such as the Mexican industrialization program or, the maquila industry establishment. We can now see how its possible for the United States, and Mexico to become industrial giants in this global economic world. I can visualize the area becoming an education center, and a high tech manufacturing area with a very bright future for our children and grandchildren.

To faster better relations between the United States of America and the Republic of Mexico, a closer day to day working relationship must be established at the highest levels of both Governments. A mutual respect for all of the people of both countries must be fostered and encouraged by all responsible parties of both countries. I believe that both Governments should sponsor such things as seminars and training sessions for such institutions as the press, the Educational Institute and Agencies that work with one or another.

We need to better understand the different cultures, customs, political systems and languages. These are only basic truths in a civilized, christian society.

Thank You.

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ECONOMIC TRENDS REPORT
NOVEMBER 1989

E PLURIBUS UNUM

AMERICAN EMBASSY
MEXICO

After the Economic Trends Report went to final printing the Pact for Stability and Economic Growth was formally extended until July 31, 1990. The announcement was made jointly by the Federal Government and the peasant, labor, and business sectors on December 3. Major provisions under the extension were as follows:

- A ten percent increase in the minimum wage, retroactive to December 1, 1989 (this breaks a historical pattern of granting such wage increases on January 1 each year);
- A continuation in the rate of devaluation of one peso per day against the dollar.
- An average five percent increase in prices for energy and certain other public sector goods and services (the lowest increase in 25 years);
- A commitment by the business sector to respect present price agreements and keep up supply levels;
- A commitment by the Federal Government to maintain strict discipline over public finances.

At the signing ceremony President Salines stated—that the extension of the Pact did not mean that prices would be frozen, but it is a guarantee of general price stability. He also noted that economic growth would be gradual and that 90 percent of Mexico's foreign bank creditors had responded to Mexico's debt proposals. Thus, the debt agreement could soon be signed.

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KEY ECONOMIC INDICATORS

	1987	1988	Projected 1989
Domestic Economy			
Population (year-end, millions)	81.2	82.8	84.5
Population Growth (% change p.a.)	2.0	2.0	1.7
GDP, current US Dollars (billions) 1/	141.2	176.7	200.7
GDP per capita, current US Dollars 1/	1,739	2,134	2,375
Real GDP Growth (% change p.a.)	1.5	1.1	3.0-3.5
Real GDP/Capita Growth (% change p.a.)	-0.5	-0.8	1.5
Consumer Price Index (% change p.a.)	159.2	51.7	21.0
Money Supply (M-1) (% change p.a.)	136.8	58.1	25.0
Production and Employment			
Labor force (year-end, millions)	27.0	27.7	28.4
Unemployment (% of workforce)	18.0	18.0	18.0
Real Industrial Production (% change p.a.)	2.9	1.3	5.0
Gross Fixed Investment (% of GDP)	16.1	16.9	17.5
Govt. Financial deficit (% of GDP)	15.9	12.3	6.5
Balance of Payments ($ billions)			
Exports (F.O.B.)	20.6	20.7	22.7
Imports (F.O.B.)	12.2	18.9	22.9
Trade Balance	8.4	1.8	-0.2
Current Account Balance	4.0	-2.9	-5.6
Foreign Direct Investment	3.2	2.6	2.2
Capital Account	-0.6	-3.4	5.0-6.0
Errors and Omissions	2.7	-0.5	0.5
Foreign Exchange Reserves (end-of-period)	13.7	6.6	7.0
Foreign Debt (end-of-period)	107.4	100.4	95.0
Average Debt/exports incl services	3.51	3.09	2.57
Average Debt/GDP 1/	0.75	0.57	0.47
Interest/Exports incl services	0.26	0.27	0.25
Interest/Coverage ratio 2/	1.49	0.67	0.38
Average Controlled Exchange Rate	1,366.73	2,250	2,455
Average Free Exchange Rate	1,405.81	2,290	2,442
Foreign Investment (Authorized $ billions)			
Total (cumulative)	20.8	24.0	27.0
U.S. (cumulative)	13.4	14.9	16.7
U.S. Share (percent)	64.3	62.1	62.0
U.S.-Mexico Trade ($ billions)			Jan-Jun
U.S. Exports to Mexico (F.A.S.) 3/	14.6	20.6	12.4
U.S. Imports from Mexico (C.I.F.) 3/	20.5	23.5	13.6
Trade Balance 3/	-5.9	-2.9	-1.2
U.S. Share of Mexican exports (%)	66.6	65.5	68.7
U.S. Share of Mexican imports (%)	61.9	66.7	67.9

Principal U.S. Exports (1989): Auto parts, petroleum products, grains (soybean, sorghum, maize), electronic parts, plastic products.
Principal U.S. imports (1989): Crude petroleum, automobiles, auto parts, televisions, silver, agricultural products (tomatoes, cattle, coffee).

1/ At average controlled rate for year; sharp fluctuations in dollar values are due to exchange rate movements.

2/ Current account surplus excluding interest payments divided by interest payments; measures ability of country to pay interest from current account earnings.

3/ Based on U.S. data. Includes imports and exports for in-bond sector, which are not inluded in Mexican trade data.

I. SYNOPSIS

A. Economic Policy. Over the past two years Mexican economic policy has featured a tough anti-inflation program which has combined traditional austerity measures (tight fiscal and monetary policies) and heterodox measures (wage, price, and exchange rate controls). The program has been successful in reducing inflation and has been extended to March 31, 1990. The major general criteria for macroeconomic policy in 1990 are to consolidate and fortify the progress made in price stabilization, to reaffirm gradual and sustained economic recuperation, to increase investment, and to improve living standards for the poorest segments of society.

B. External Debt. In 1989 Mexico has reached agreements for large new loans from the IMF and World Bank, for debt rescheduling in the Paris Club, and for debt reduction and new money from commercial banks. The government estimates that net external financial transfers will fall from an average of almost six percent of GDP in recent years to 2.72 percent of GDP in 1989 and to 1.97 percent of GDP in 1992. Public sector external debt fell $3.8 billion in the first three-quarters of 1989 to $77.2 billion. Private sector external debt has fallen sharply in 1988 and 1989, now totaling only $5.45 billion.

C. Production and Employment. Preliminary official estimates are that GDP grew 2.9 percent in the first three quarters of 1989. For the year, it should be 3.0-3.5 percent. This is stronger than expected and up from 1.1 percent growth in 1988. Private invest- ment has been expanding about 10 percent in real terms this year.

D. Public Finances. The public sector financial (overall) deficit decreased 55 percent in real terms in the first nine months of 1989 compared to the first nine months of 1988. The current estimate for the financial deficit is 6.3 percent of GDP (down from 11.7 percent of GDP in 1988) and for the primary surplus (the public sector balance excluding interest payments) is 7.8 percent of GDP, (down from 8 percent of GDP in 1988). In 1990 these are projected at 5.3 percent of GDP and 6.5 percent of GDP, respectively (excluding the effects of debt rescheduling). Internal public sector debt grew 21.8 trillion pesos, or by 6.6 percent in real terms, in Jan-Sept 1989.

E. Inflation. For the first ten months of 1989, inflation was 14.2 percent, and 18.1 percent for the period October 1988-October 1989. For the year, inflation should be about 21 percent, compared to 51.7 percent in 1988 and 160 percent in 1987.

F. Wages. The minimum wage has been increased 14.5 percent so far in 1989 and is expected to fall slightly in real terms this year. Through June average renumeration in the manufacturing sector has risen by eight percent in real terms.

G. Monetary and Financial Policies. Nominal annual interest rates on Treasury bills dropped 24 percentage points in July and August to a low of 33 percent, in part due to the external debt agreement. These rates since have risen to 39-40 percent. The growth rates of the major monetary aggregates have fallen in 1989 but remain above inflation. In April regulations regarding reserve requirements for the banking sector were liberalized, giving banks greater autonomy in lending decisions.

H. Financial Markets. Treasury bills and other government obligations dominate the financial markets. Due to a reduction in inflation and a desire by the government to extend the maturity of its obligations, the dominance of one month Treasury bills has slipped as 1-2 year bonds have taken on greater importance this year. Domestic financial savings are expected to increase about 25 percent in real terms in 1989. Private sector demand for credit increased sharply during the first three quarters of 1989 and financing to the private sector is projected to rise by more than 44 percent in real terms this year. During the first 10 months of the year the stock market index increased 89 percent.

I. Exchange Rate. After being held stable during most of 1988 the Mexican peso has fallen about one unit per day against the dollar since the beginning of this year, about a 16 percent annual rate. The government has committed itself to continue this policy at least through March 31, 1990. This daily slippage has allowed for a slight real depreciation of the peso against the dollar during the first ten months of 1989.

J. Balance of Payments. In the first eight months of 1989 the current account deficit was $3.15 billion and the trade surplus was $274 million. The capital account surplus was $2.59 billion. Gross international reserves stood at $7.3 billion at the end of October 1989, up from $6.6 billion at the end of 1988. There have been substantial inflows of foreign capital into Mexico this year.

K. Parastatal Sector. The Mexican government has continued to streamline the parastatal sector by liquidating, merging, transferring and selling companies and reducing subsidies. Over two-thirds of the more than 1,100 pre-1982 parastatals have been, or are in the process of being, disincorporated. In 1989 the government privatized Mexicana Airlines and announced plans to privatize Telefonos de Mexico and portions of Conasupo.

L. Foreign Investment. Foreign direct investment flows in the balance of payments totaled $1.3 billion in the first eight months of 1989, down about 11 percent from the same period in the previous year. The debt/equity swap program has been renewed in a limited way, allowing up to $1 billion annually for privatization and infrastructure projects. To promote greater foreign investment, in May 1989 the government liberalized regulations regarding the approval process and ownership rules.

M. Petroleum Sector. During the first 8 months of 1989 Mexico's crude oil production averaged 2,520 mbd compared to 2,507 mbd in 1988. Crude oil exports averaged 1,294 mbd and 1,307 mbd during the same two periods, respectively. Average per barrel petroleum prices rose from about $12.30 in 1988 to $15.33 so far this year. As a result, petroleum product export revenues were 7.6 percent higher during the first eight months of 1989 compared to the same period a year earlier.

N. Trade Liberalization. Since 1986, Mexico's trade regime has been liberalized by eliminating official reference prices, reducing prior import permits, and cutting maximum tariff rates from 40 to 20 percent. In October 1989 Mexico and the U.S. signed an understanding to accelerate trade and investment negotiations between the two countries.

O. Agricultural Sector. Agricultural production in 1989 probably will be stagnant. A combination of poor climatic conditions and inefficient production techniques has inhibited growth. Imports of agricultural products have increased sharply in 1989.

III. SHORT-TERM ECONOMIC OUTLOOK

Mexico's economic prospects have improved considerably over the past two years with the substantial progress in renegotiation of external debt, relatively strong economic growth, subsiding inflation, and some repatriation of capital. Major challenges facing the government include maintaining moderate economic growth without inflation, decontrolling prices, promoting capital inflows and continued growth of non-petroleum exports, financing the current account deficit, reducing the fiscal deficit and domestic interest rates, and implementing proper exchange rate policies. Successful macroeconomic management will also depend on external factors: oil prices, international interest rates, and the growth rates of foreign markets.

IV. BUSINESS AND TRADE OPPORTUNITIES

The U.S. share of the Mexican import market increased over one percentage point to 67.9 percent in the first half of 1989, as U.S. exports to Mexico in that period increased 33 percent over the first six months of 1988. The government's on-going efforts to open the economy should mean greater opportunities for U.S. exporters.

II. Recent Economic Developments

A. Economic Policy. Top macroeconomic priorities for the Mexican government in 1989 have been restructuring external debt, controlling inflation, and setting the groundwork for renewed growth. To a large extent, it has been successful in the pursuit of these goals. It negotiated a series of agreements with commercial and official creditors that provide for debt reduction or new credits. Once fully implemented these agreements should bring substantial savings on debt servicing for the next few years. Just as important, these negotiations and consistent macroeconomic policies have helped reinstill public confidence, as seen in a sharp increase in private sector demand and investment, capital repatriation and lower domestic interest rates.

These developments helped produce nearly three percent growth in the economy during the first three quarters of 1989. The economy is expected to grow at a slightly higher rate through 1990 and this should help pull Mexico out of the prolonged recession brought on by the debt crisis in 1982.

The long term economic objective of the Salinas administration is to renew sustained economic growth with low inflation. Between 1982 and 1988 there was no overall expansion in the economy and real per capita income fell by more than 15 percent. The strategy now is to progressively stimulate the economy by promoting increased availability of goods and services while tempering the rate of growth of domestic demand so as to not promote inflationary pressures. In the National Development Plan released in May 1989 the government projects average annual economic growth between 2.9 and 3.5 percent during the 1989-91 period, and between 5.3 and 6.0 percent annual growth for the 1991-94 period.

Table 1
Evolution of Aggregate Supply and Demand 1985-1990 1/
(Percent real growth rates)

	1985	1986	1987	1988	1989 2/	1990 3/
Overall Supply	3.1	-4.4	1.7	3.3	3.6	4.0
GDP	2.6	-3.8	1.5	1.1	2.5	3.5
Imports	11.0	-12.4	4.5	34.8	15.2	8.5
Total Demand	3.1	-4.4	1.7	3.3	3.6	4.0
Consumption	3.1	-1.5	-0.2	1.6	2.8	2.7
Public	0.9	2.1	-0.8	-0.7	2.3	2.7
Private	3.6	-2.1	-0.1	2.1	2.9	2.7
Investment	7.9	-11.8	-0.6	6.0	8.0	10.6
Public	0.9	-14.2	-9.8	-2.7	7.2	10.5
Private	12.2	-10.4	4.3	10.1	8.3	10.7
Exports	-4.5	3.2	9.8	2.0	1.8	3.0

1/ Figures correspond to the Mexican National Accounts System.
2/ Estimates subject to revision.
3/ Projection.

Source: Criterios Generales de Politica Economica para 1990, Presidencia de la Republica.

With a government committed to streamlining the state and limiting its role in the economy, most of this growth is expected to come from the private sector. Helping to promote this expansion will be structural reforms to improve domestic economic efficiency and further open the economy. These reforms are seen in a number of recent policy changes: trade liberalization to improve domestic efficiency and promote export industries; modifications of foreign investment regulations to facilitate the approval process and allow majority foreign ownership; divestiture of government owned companies; and deregulation of the trucking industry to promote competition and lower prices.

Over the past two years economic policy has been implemented under the Economic Solidarity Pact (ESP), begun in December 1987, and its successor, the Pact for Stability and Economic Growth (PSEG) which is scheduled to remain effect at least until March 1990. The ESP was developed at a time of economic uncertainty, characterized by accelerating inflation, speculation against the peso, problems in financing public sector expenditures, and collapse of the stock market. The PSE was a mixture of traditional austerity measures (tight fiscal and monetary policies) and heterodox economic measures (price, wage and exchange rate controls) combined with rapid trade liberalization. The intent was to reduce inflation and restore confidence in Mexican macroeconomic policy without falling into a deep recession. The Pact was formally signed by representatives of the government, labor, rural and private sectors in order to maximize support for the tough economic program.

The measures introduced under the Economic Solidarity Pact included the following: (1) a 22 percent devaluation of the controlled peso; (2) a cut in public sector expenditures and increases in revenues to boost the government's primary budget surplus (the balance excluding interest payments) from 5.3 to 8.3 percent of GDP and to reduce the public sector financial deficit from nearly 16 to 10 percent of GDP in 1988; (3) acceleration in the program of sales of parastatal enterprises; (4) increased credit restrictions; and (5) a reduction in the maximum import tariff from 40 percent to 20 percent and elimination of the five percent general import surcharge. In addition, government controlled wages and prices were frozen for 75 days--supported by a constant or slightly devaluing exchange rate--and forward looking indexation of key prices thereafter. Prior to the initial freeze several key government controlled goods and services prices were raised by 80-85 percent. At the same time, the government exhorted the private sector to keep price increases in line with cost increases and threatened sanctions for "excessive" price hikes for products not subject to price controls.

On March 1, 1988, the government froze controlled prices and the exchange rate, while granting a three percent minimum and contractual wage increase. The Pact was extended two more times during the year, once in May and again in October, the second time by President-elect Salinas, continuing the Pact to the end of the year. Minimum wages and prices for public sector goods and services remained fixed, as did the peso/dollar exchange rate. In the May renewal value added taxes on processed food products were eliminated. Also, there was a 30 percent cut in income taxes for individuals earning up to four times the minimum wage, and a three percent reduction in prices of goods and services produced by the private sector.

The PSE was largely successful. Over the course of 1988 inflation fell from 160 percent to 52 percent by the year's end, while economic growth was a modest 1.1 percent. International reserves grew to record levels, but fell in the second half of the year because of growing imports, falling petroleum prices and the government's financing requirements. The public sector fiscal deficit dropped as a percent of GDP, but fell somewhat short of its target.

In December 1988, the incoming administration announced the extension of the ESP in a modified, renamed version--the Pact for Stability and Economic Growth (PSEG). It is similar to the ESP in combining shock treatment and orthodox measures and was endorsed by the labor, rural and private sectors. The most important modification was a relaxation of the exchange rate policy, replacing the exchange rate freeze with a gradual devaluation of one peso per day against the dollar. Most controlled prices remained frozen, although some were revised, and the minimum import tariff was raised from zero to 10 percent. The minimum wage was increased eight percent, and the government pledged continuation of tight fiscal policies.

The first phase of the PSEG ran from January 1 to July 31. In June, the administration announced that it would be extended to March 31, 1990. The one peso per day exchange rate policy remains in effect, as do price restrictions and tight monetary and fiscal policies. However, the current version allows for price adjustments to prevent shortages, and a number of private sector prices were adjusted (usually modestly) in the third quarter of 1989. Rates for government produced fertilizer and electricity also were raised slightly.

So far this year, the Pact has been successful, with moderate inflation and a falling public sector financial deficit. However, the administration currently is facing pressures to permit wage and price increases. The Pact probably will be extended in some form beyond March of next year but with some wage and price increases granted in the interim. At present, the government has no plans to modify exchange rate policy.

B. External Debt. Renegotiation of Mexico's public sector foreign debt has been a foremost economic priority for the Salinas government in 1989. It negotiated a series of agreements with bilateral creditors, the World Bank, the IMF and foreign commercial banks that should enable Mexico to reduce its annual net transfers abroad by the equivalent of three to four percentage points of GDP. The administration believes that this reduction is critical to the future health of the Mexican economy.

In renegotiating its external debt, Mexico has pursued four goals, outlined by President Salinas in his inaugural address:

-- a reduction in net transfers abroad,
-- a reduction in the level of debt,
-- a reduction of the debt as a proportion of GDP, and
-- a long-term (multi-year) agreement.

On April 11, 1989, Mexico signed a letter of intent with the International Monetary Fund for a three year, SDR 2.8 billion (approximately $3.6 billion) extended fund facility agreement with an optional fourth year. The agreement supports a strategy of sustained growth with stable prices, and the policies and targets in the agreement largely reflect those established by the government in its 1989 budget and in the PSEG, with some limited modifications. The public sector financial deficit was targeted at 7 percent of GDP and the primary surplus at 7.3 percent of GDP (recent government projections indicate that the fiscal accounts will do better than these targets). Other important targets in the program for 1989 include a limit on net external borrowing of $6.65 billion, an increase in net foreign exchange reserves of $1.5 billion compared to December 1988, and a moderate decline in Bank of Mexico credit outstanding to the government. The accord allows possible adjustments in performance criteria based on movements in international oil prices and interest rates. One of the new features of the agreement is usage of a portion of the loan to reduce the size and servicing of Mexico's public sector external debt.

In May, Mexico signed agreements with the World Bank and the Paris Club. The World Bank package consists of three sectoral development loans and an energy sector loan totaling $1.96 billion. As in the IMF agreement, part of the funds will go to support debt reduction. The Paris Club restructuring represents savings for Mexico of $2.6 billion over three years. During this period, all amortization and most interest payments have been postponed (100 percent of interest payments were postponed for the first year, sliding to 90 percent, then 80 percent in the subsequent two years).

On July 23, the government announced an agreement with the Bank Advisory Committee, which represents the roughly 500 commercial banks that have exposure in Mexico. The agreement consists of three options. The banks can chose any option or some combination of them. The first is a 35 percent reduction in principal. The second is a below market interest rate of 6.25 percent on 100 percent of the outstanding principal. The third is new loans equal to 25 percent of existing exposure in Mexico. The interest rate on the first and third options is

LIBOR plus 13/16. The amortization period for the first and second options is 30 years, up from 20 years under the previous arrangement. Amortization for new money will be 15 years, with seven years grace.

In the first two options, in exchange for the reduced principal or interest rates, the banks will receive greater security in the form of a new debt instrument with certain guarantees. The old debt will be exchanged for new Mexican bonds, which will be secured by 30 year U.S. Treasury zero coupon bonds (or similar instruments). Interest payments will be guaranteed by deposits covering 18 to 24 months of interest payments. Mexico plans to have about $7 billion available for these enhancements, coming from the IMF, World Bank, the Japanese Export-Import Bank, and Mexico's own funds.

In September, a final term sheet was drafted and sent to the banks, and as of mid November 223 banks, with about 60 percent of the total public sector debt to be restructured, had made their choices. Based on this the government now estimates that banks with 50 percent of the debt will opt for principal reduction, those with 40 percent of the debt will opt for interest rate reduction, and those with 10 percent of the debt will opt for new money.

The debt agreement is effective as of July 1989. Until the agreement is finalized, Mexico will service its debt under the previous terms. Once all the banks have made their selections, they will rebate to Mexico the difference between the old and new arrangements. The Ministry of Finance estimates that these debt renegotiations will reduce net external financial transfers from 2.72 percent of GDP in 1989 to 1.97 percent of GDP in 1992 (see Table 3).

Mexico's total external debt in September 1989 was just over $96 billion dollars, down from $100.4 billion for the end of 1988. About $1.6 billion dollars of the decline was in private sector debt. Most of the fall in public sector debt was due to exchange rate movements as the dollar appreciated against other currencies. As of September 1989 the private sector had only $5.45 billion in foreign debt compared to $15 billion two years ago.

Table 2
Mexico's External Debt
(U.S. $ Billions)

	1987	1988	March 1989	Sept 1989
A. Public Sector	81.4	81.0	78.3	77.2
By creditor:				
Commercial Banks	62.5	57.8	56.2	N/A
IBRD/IDB	8.1	10.4	9.7	N/A
Official Bilateral	8.0	8.7	8.4	N/A
Other	2.8	4.1	4.0	N/A
B. Mexican Banks	5.8	7.5	8.1	8.6
C. Private Sector	15.1	7.1	6.5	5.4
D. Bank of Mexico (IMF)	5.1	4.8	4.5	5.1
TOTAL	107.4	100.4	97.3	96.3

Source: Ministry of Finance. Figure for Bank of Mexico debt to IMF as of September is an estimate.

Table 3
Net External Financial Transfers (Estimated)
(Percentage of GDP)

	1989	1990	1991	1992
Commercial Banks	2.35	1.93	1.77	1.62
Bilateral and Suppliers	-0.51	-0.64	-0.62	-0.61
World Bank/IDB	-0.16	-0.13	-0.04	-0.02
IMF	0.14	0.47	0.43	0.27
Private Sector	0.50	0.50	0.45	0.40
Other	0.40	0.37	0.33	0.31
Total	2.72	2.50	2.32	1.97

Source: Ministry of Finance.

C. Production and Employment. The gross domestic product (GDP) grew 2.9 percent in the first three quarters of 1989, compared to 1.1 percent for 1988. This growth was much stronger than the 1.5 percent annual growth projected by the government at the beginning of the year and was led by investment and manufactured exports. GDP growth in the first quarter was 1.8 percent, rising to 2.9 percent in the second quarter and an estimated 4 percent in the third quarter. For the year as a whole, economic expansion is now projected at about 3.0 percent.

During the first nine months of 1989 the most dynamic sectors were manufacturing (up 6.3 percent), electricity (up 8.4 percent), and transportation and communications (up 6.2 percent). The agricultural sector (which includes fishing and livestock) contracted by 1.1 percent because of poor performance in the second quarter. The mining sector fell by 1.6 percent because of a sharp decline in output of non petroleum products. Construction, which had been contracting for much of the 1980s, grew by 12 percent.

During the first six months of the year the performance by the manufacturing sector was driven by the production of capital goods, up 16.4 percent, a reflection of strong domestic investment. The metal products and machinery subsector was up 12.9 percent. Other subsectors registering strong growth were non metalic minerals, chemicals and petroleum products, and food and beverages.

In the first half of 1989 gross fixed investment expanded by 8.9 percent compared to the same period in 1988. Much of the investment was upgrading of existing facilities, many of which were neglected for the past several years. Investment in construction grew only 3.7 percent, while investment in domestic and imported machinery increased by 16.4 and 19.7 percent, respectively.

As a percentage of GDP, gross fixed investment was 16.9 percent in 1988, up from 16.1 percent in 1987. The expansion was due entirely to private sector investment, which increased from 10.9 percent to 11.9 percent of GDP, while public sector investment shrank slightly as a share of GDP. In 1989 private sector investment is expected to rise about 8-10 percent but public sector investment will fall. Even so, the ratio of investment to GDP is likely to rise again this year.

In September 1989 there were 7.54 million people registered in the Mexican Social Security System, an 8.2 percent increase over September 1988. Also during the first five months of the year manufacturing jobs increased by 7.2 percent and as of June average remunerations in the manufacturing sector were nearly eight percent higher in real terms than a year earlier. Even so, unemployment and underemployment are serious problems in Mexico. Until recently only about 200,000 new jobs per year were being created in the formal sector compared with 800,000-1,000,000 yearly entrants into the labor force. The situation is now improving with the upswing in the rate of economic growth.

Table 4
Gross Domestic Product, 1987-1989
(Percent Change)

	1987	1988	Jan-Sep 1989 1/
General Index (1980 = 100)	1.5	1.1	2.9
Agricultural	1.1	-1.6	-1.1
Mining	5.2	0.4	-1.6
Manufacturing	2.6	2.4	6.3
Construction	1.5	-3.4	1.2
Electricity	1.9	5.4	8.4
Commerce, Restaurants, Hotels	0.5	1.2	2.7
Transportation, Communication	2.5	2.8	6.2
Financial Services	2.4	2.7	1.8
Other Services	0.1	0.4	1.3
Selected Manufacturing Sub-Indices			
Food, Beverages, Tobacco	0.9	-0.3	7.3
Textiles and Clothing	-5.1	2.7	-0.1
Chemical, Rubber, Plastics	5.5	1.7	6.8
Non-metalic Minerals	9.5	-3.8	6.9
Basic Metals	10.9	6.3	2.2
Metal products, Machinery	3.7	11.5	11.2

1/ Preliminary.

Source: Ministry of Programing and Budget.

Table 5
Manufacturing, 1987-1989
(Percent Change)

	1987	1988	Jan-Jun 1989
General Index	2.6	2.4	5.8
Consumer Goods	0.6	1.3	7.5
Durables	1.4	4.0	7.4
Non-Durables	0.5	0.0	7.5
Intermediate Goods	5.1	2.4	4.3
Capital Goods	9.6	11.2	16.4
In-Bond Industry	26.3	14.8	15.2

Source: Bank of Mexico.

D. Public Finances. The government maintained tight fiscal control in the first half of 1989 as the public sector financial (overall) deficit was only 11.1 trillion pesos, a real decline of 61 percent (i.e., after factoring out inflation) compared to the same period in 1988. This was due largely to falling expenditures, but real income also increased because of more rigorous tax collection. The primary budget surplus (the public sector balance after subtracting all interest payments) reached 22.3 trillion pesos, a real decline of 2.3 percent.

The sharp fall in the financial deficit reflects the success of the government's efforts to increase revenues and cut expenditures. Real public sector income increased three percent in spite of a decline in petroleum sector income. Non-petroleum income was up 10 percent in real terms because of rigorous efforts to improve tax collection. This can particularly be seen in the real increase in corporate income taxes (up 32 percent). Non-tax revenues expanded by 125 percent. Even so, the government continued to borrow heavily in the domestic market. Much of this credit, particularly in the second quarter, came from the central bank. This, combined with increased domestic savings, contributed to an acceleration in the growth rates of M-3 and M-4, the most comprehensive monetary aggregates, beginning in May.

Public sector expenditures fell by more than 15 percent in real terms during the first half of this year. Much of the drop was in real interest payments, which declined 29 percent. Even so, interest costs were larger than budgeted, since interest rates remained high during the first half of the year. Interest payments were 42 percent of all expenditures, and of these almost four-fifths was for internal debt, even though as of mid-year internal debt made up only about 38 percent of all public sector debt.

So far this year the government has continued to cut back on capital expenditures and for the year as a whole physical and financial investment is expected to fall by about 13 percent in real terms. It has shifted part of the effort to the private sector, allowing, for example, private sector construction of toll roads. Moreover, the privatization of the airlines and Telefonos de Mexico means that the capital needs of these enterprises can come from private sources.

In November the administration presented its 1990 budget to the Congress. The projected overall public sector financial deficit is only 5.3 percent of GDP in 1990. (This excludes the one-time effect of debt relief which is projected to reduce the financial deficit to 1.6 percent of GDP next year.) This compares to an estimated financial deficit of 6.3 percent of GDP for 1989, one percentage point lower than originally projected and the lowest ratio to GDP in 11 years. The primary surplus is projected at 6.5 percent of GDP (10.2 percent of GDP if debt relief is included) for 1990 compared to an estimated 7.8 percent of GDP in 1989.

In 1990 total public sector income is projected at 185.8 trillion pesos, a real increase of 13.4 percent over 1989. Total expenditures are put at 194.4 trillion pesos. 57 percent of total expenditures will be programmable, which represents a real increase of 4.7 percent in programmable expenditures. Interest payments on external debt are projected to fall from 3.8 percent to 2.6 percent of GDP and interest payments on internal débt will fall from 9.7 to 7.8 percent of GDP. This represents a savings of over 18 trillion pesos. For the first time in many years real investment is projected to increase by a substantial amount, 14.4 percent.

The internal public sector debt (which includes parastatal debt) increased from 113.9 trillion pesos (U.S. $50.5 billion using the end-of-period controlled exchange rate) at year-end 1988 to 136.2 trillion pesos (U.S. $53.5 billion) in September 1989, a real increase of about 6.6 percent. The composition of the debt continued to shift in this period as the government has been moving from heavy reliance on required lending by the banking system to greater borrowing from the Central Bank. Between January and June the share owed to the banking sector dropped from 40 percent in 1987 to 12 percent in June 1989. The share of public sector debt held by the Central Bank in June was 50 percent, compared to 40 percent at year-end 1988 and only 18 percent for 1987. The increase in the Central Bank's share reflects large purchases of Treasury securities by the Bank.

At the end of June the share of government securities held by the private sector was 38 percent, down from the 40 percent share six months earlier. However, this masks a sharp change from the first to second quarter of 1989. Securities in the hands of the private sector totaled 58.2 trillion pesos in March (47 percent of those outstanding) but fell to 47.9 trillion pesos in June. Total debt increased in this period, requiring heavy financing by the Central Bank in the second quarter.

Table 6
Public Sector Financial Balances
(Billions of Pesos)

	January - June		Real Percent Change 1/
	1988	1989	
Financial Deficit	23,137	11,052	-61.0
Financial Intermediation	3,083	-87	n.a
Economic Deficit 2/	20,054	11,139	-54.6
Interest Payments	38,692	33,437	-29.4
Primary Surplus	18,638	22,298	-2.3

1/ Using a deflator of 22.4 percent.

2/ Includes discrepancies due to differences in sources of financing.

Source: Bank of Mexico, from Ministry of Finance.

Table 7
Public Sector Finances
(Billions of Pesos)

	January - June		Real Percent Change 1/
	1988	1989	
Public Sector Income	56,882	71,759	3.1
Petroleum Sector	15,691	16,437	-14.4
Non-petroleum Sector	41,191	55,322	9.7
Federal Government	24,849	35,827	17.8
Tax Revenues	22,952	30,615	9.0
Personal Income	4,055	5,404	8.9
Corporate Income	4,300	6,943	31.9
Special Taxes	12,152	14,987	-5.3
Non-tax Revenues	1,897	5,217	124.5
Parastatal Sector	13,983	15,862	-7.3
Off-budget Parastatal	2,359	3,633	25.8
Public Sector Expenditures	76,692	79,416	-15.4
Current Expenditures	69,794	71,515	-16.2
Interest	38,692	33,437	-29.4
Personnel Services	10,499	12,936	0.7
Purchases	7,348	7,617	-15.3
Transfers	3,562	4,126	-5.3
Revenue Sharing	4,414	5,231	-3.2
Other	5,279	8,168	26.4

Capital expenditures	6,610	7,320	-9.5
Public Works	5,862	6,163	-14.1
Other	748	1,157	26.4

1/ Using a deflator of 22.4 percent.

Source: Bank of Mexico, from Ministry of Finance.

Table 8
Financial Situation of the Public Sector
(Percentages of GDP)

Year	Financial Deficit 1/	Primary Deficit 1/	Operational Deficit 1/
1980	7.5	3.0	3.6
1981	14.1	8.0	10.0
1982	16.9	7.3	5.5
1983	8.6	-4.2	-0.4
1984	8.5	-4.8	0.3
1985	9.6	-3.4	0.8
1986	16.0	-1.6	2.4
1987	16.1	-4.7	-1.8
1988	11.7	-8.0	3.5
1989			
Target	6.4	-6.7	1.6
Most recent estimate	6.3	-7.8	1.8
1990			
Target 2/	1.6	-10.2	-2.5
Target without debt rescheduling	5.3	-6.5	1.2

1/ Minus sign indicates a surplus.
2/ Includes an estimate equal to 3.7 percent of GDP for the negotiated reduction of the public sector external debt.

Table 9
Public Sector Internal Debt
(Trillions of Pesos)

	December 1987	December 1988	June 1989
Total	64.1	113.9	131.8
Federal Government	61.6	108.9	126.3
Bank of Mexico	10.8	43.7	63.5
Securities 1/	27.5	43.8	47.9
Banking System	23.2	21.4	14.8
Parastatal Sector	2.6	5.0	5.5

1/ Held by the private sector.

E. Inflation. Inflation has fallen dramatically in Mexico. This year it is projected at 21 percent compared to 52 percent and 160 percent for 1988 and 1987, respectively. It appears that the inflationary psychology that prevailed in the mid 1980s in Mexico is progressively being broken. Inflation has decelerated because of strict policies that have been consistently applied since the Economic Solidarity Pact was introduced in December 1987. These policies include: price controls on most public sector goods and services and some other basic goods, particularly foodstuffs; pressure on private sector producers to restrain price increases; slow and predictable exchange rate movements; a liberalization of the trade regime, which lowered import costs and increased price competition for domestic producers; constraints on wage increases; a decline in the growth rates of the monetary aggregates; and sharp cuts in programmable expenditures in the public sector budget.

The producer price index rose 11.9 percent during the first ten months of 1989 and by 15.2 percent for the twelve month period ending in October 1989. For the year, producer price inflation probably will be about 14-16 percent. This compares favorably to 1988, when producer prices rose 37.3 percent.

For the period January-September 1989 the average increase in consumer prices--i.e., on a monthly basis compared to the same month a year earlier--was 20.5 percent (versus 137.6 percent for the same period in 1988) and the average increase of producer prices was 11.9 percent (versus 125.3 percent for 1988).

The government's initial December-December inflation estimate for 1990 is 15.3 percent. A continued reduction in the rate of inflation will depend on a number of factors. Important among them will be the manner in which price and wage controls are relaxed and relative prices are adjusted to compensate for distortions which have arisen over the past eighteen months, developments in the country's fiscal accounts, and exchange rate policy. During 1989 the prices of some privately produced goods and services rose modestly, although many producers remain constrained by the Pact and by import competition. Rates for government produced fertilizers and electricity were raised in the third quarter of this year, and adjustments for other public sector goods and services and for minimum wages are likely to be announced before the end of the year. The relatively strong rate of economic expansion, particularly growing private demand, could create bottlenecks which would increase inflationary pressures. Furthermore, even though the public sector deficit has been shrinking, continued high real domestic interest rates could keep the government's borrowing costs high, thereby making it more difficult to reduce inflation. On the other hand, it appears that the current exchange rate policy will be continued for the foreseeable future and this should help temper inflation.

Table 10
Consumer and Producer Price Indices
(Percent Change for 12 Month Period Ending Aug. 1989)

	CPI		PPI
General Index	16.8	General Index	11.2
Food	17.6	Agroindustry	35.5
Clothing	1.5	Mining	19.3
Housing	48.3	Petroleum	22.1
Household Items	0.8	Machinery and Equipment	2.3
Health Care	12.2	Food and Tobacco	8.6
Transportation	5.5	Chemicals	2.8
Education	21.5	Construction	6.7
Other Services	22.6	Electricity	5.3

Source: Bank of Mexico.

Table 11
Evolution of Inflation in Mexico
Percentages

	Increase in the National Consumer Price Index (1978 = 100)			
	Monthly Rate	Year to Date	Annual 1/	Annual 2/ Average
1987				
December	14.8	159.2	159.2	131.8
1988				
March	5.1	31.5	175.8	177.4
June	2.0	41.0	135.8	161.0
September	0.6	45.5	95.3	137.6
December	2.1	51.7	51.7	114.2
1989				
January	2.4	2.4	34.6	34.6
February	1.4	3.8	25.9	30.1
March	1.1	5.0	21.1	26.9
April	1.5	6.5	19.2	24.9
May	1.4	8.0	18.5	22.9

June	1.2	9.3	17.6	22.4
July	1.0	10.4	16.8	21.6
August	1.0	11.5	16.8	20.9
September	1.0	12.5	17.3	20.5
October	1.5	14.2	18.1	20.2

Increase in the National Producer Price Index
(1980 = 100)

	Monthly Rate	Year to Date	Annual 1/	Annual 2/ Average
1987				
December	12.3	166.5	166.5	145.3
1988				
March	2.6	28.1	166.7	177.2
June	1.1	33.5	118.9	152.4
September	-1.0	35.4	74.3	125.3
December	1.7	37.4	37.4	99.3
1989				
January	1.8	1.8	18.3	18.3
February	0.7	2.5	12.7	15.4
March	1.2	3.7	11.2	14.0
April	1.8	5.6	10.9	10.9
May	0.8	6.4	10.6	12.7
June	0.9	7.4	10.5	12.3
July	0.8	8.3	9.8	11.9
August	1.3	9.7	11.2	11.8
September	0.5	10.3	12.9	11.9
October	1.3	11.9	15.2	12.2

1/ Annual = Index in month i of year t / Index in month i of year t-1.

2/ Annual Average = (Average index from January through month i of year t) / (Average index from January through month i of year t-1.)

SOURCE: Bank of Mexico.

F. Wages. As of mid-November, the minimum wage in Mexico had been increased 14.5 percent so far in 1989 (eight percent in January and six percent in July). In the first ten months of the year cumulative consumer price inflation was 14.2 percent. Baring an additional wage adjustment minimum wages probably will fall slightly in real terms during 1989. As of October 1989 the minimum wage was 9,160 pesos per day ($3.59) in Mexico City and other high-cost areas, 8,475 pesos ($3.32) in intermediate cost areas, and 7,640 ($3.00) for the rest of the country.

Public sector employees received a 10 percent raise at the beginning of 1989, but some unions, most notably the teachers' union, have since obtained additional increases. Private sector contracts have generally enjoyed wage increases larger than that of the minimum wage and real wages in the manufacturing sector have risen substantially this year.

G. Monetary and Financial Policies. Nominal passive interest rates (as measured by short-term Treasury bill rates) remained in the 50-55 percent range during the first half of 1989 but fell sharply in July and August, in part because of the announcement of a debt agreement with foreign commercial banks. This was instrumental in helping the government to lessen the cost of servicing the internal debt (a savings equivalent to about 5 percent of GDP on an annualized basis). Interest rates have since increased to about 38 percent (in mid-November), in part because of additional demand from both the private and public sectors for more credit. Rates on other financial instruments have mirrored the movement in the Treasury bill rate.

The marked fall in nominal interest rates in July and August significantly reduced real interest rates for the first time in over a year. Nominal interest rates fell in the first quarter of 1989, but then began to rise again. Meanwhile, inflation continued to drop, driving up real interest rates. In June, real interest rates stood at about 33 percent. While this encouraged people to retain their savings in pesos, it inhibited investment and kept the government's borrowing costs high. In mid November, with nominal rates around 38 percent, the real interest rate was about 16-18 percent. The dollar return (allowing for a 16 percent annual devaluation) was 19 percent. These returns have been sufficient to continue to attract some capital repatriation.

The growth rates of major monetary aggregates have dropped from the levels at the end of 1988, but have picked up since their low point in April. The rates, particularly that of M-4, remain well above the inflation rate. The annual growth rate of M-1 in July was 22.4 percent, down from 58.1 percent in December, 1988. The rate for M-4, the most comprehensive monetary aggregate, declined from 62 percent to 47.5 percent over this same period. The annual growth of the monetary base (currency plus deposits in the banking system) was negative in July, -4.3 percent.

Much of the contraction in the growth rates of the monetary aggregates earlier this year reflected declines in Mexico's international reserve levels and tight credit conditions in the country that prevailed in 1988. This is particularly seen in the fall in the monetary base. Conversely, the small upswing in some monetary aggregates since April reflects the increased levels of capital repatriation and credit liberalization, plus increased Central Bank lending to the government.

In 1988 the Bank of Mexico limited bank lending to the private sector to not more than 85 percent of total outstanding credits as of December 1987. However, local credit to the private sector did not dry up last year because much of the lending and borrowing shifted away from the banks to the money market, where commercial paper and bankers acceptances enjoyed a great deal of popularity. In April 1989 credit restrictions were greatly reduced when the limitation on overall bank lending was lifted, replaced by a 30 percent reserve requirement. Banks also were permitted to set their own rates on traditional banking instruments (savings and checking accounts, CDs). However, banks did not adjust these rates until July, when the sharp fall in Treasury bill rates forced them to do so.

H. Financial Markets. Mexican financial markets have been dominated by trading in short term Treasury securities. For example, during August 1989, 80 percent of the total value of trading in Mexico's money and capital markets was in Treasury bills. (The Treasury bills' dominance of trading partly reflects a well developed secondary market which other instruments lack.) However, the dominance of very short term paper is decreasing as investors' confidence in the economy increases. In fact, according to the Finance Ministry the average maturity of the government's internal debt has risen from 16 days in December 1987 to 235 days at the beginning of November 1989. Moreover, as of October, 62.5 percent of government securities in the hands of private investors are bonds with maturities of one to two years. This summer Nafinsa, the national development bank, issued 10 year development bonds, all of which were placed with a relatively small premium over short-term rates.

In addition to Treasury bills (CETES), the other principal government securities are bonds with one to two year maturities (Bondes), PAGAFES and Tesobonos (dollar denominated public sector savings instruments which are protected against peso devaluations), and Ajustabonos (bonds adjusted for inflation). The major private sector financial instruments traded in Mexico include commercial paper, bankers' acceptances, short term debt obligations issued by the stock brokerage firms themselves, and stocks. In 1988, with traditional banking operations tightly regulated, commercial paper and bankers' acceptances became the principal means by which the private sector raised revenue. In 1989, with decreased regulation of the banks, there is greater balance between bank lending and other forms of credit.

Mexico's stock market index rose by 78 percent from January to mid November 1989. On October 16 it fell 8.1 percent because of the decline in the New York stock market, but quickly recovered. This is in contrast to the collapse in the last quarter of 1987 when the index dropped by 72 percent. Prior to the October 1989 downturn, the index had been setting new (nominal) records, and companies are considering issuing new stocks for the first time since 1987.

Current government estimates are that real financial savings in the economy this year will grow by about 25 percent. This has been due primarily to high real interest rates and the increased flexibility in the operation of the Mexican financial system. The growth in savings has helped to insure the availability of additional resources for private sector financing which is officially projected to grow about 44 percent in real terms this year.

Most stockbrokerage firms operate a wide variety of fixed-income and variable-income mutual funds and several mutual capital funds. Several new funds are issued every month, with some funds specializing in dollar denominated securities (PAGAFES and Tesobonos). Foreigners are permitted to invest in any mutual or venture capital fund as well as in Series B or N (a newly authorized "neutral" series) stocks, in commercial paper, and in debentures. The Mexico Fund--a closed-end mutual fund investing in blue-chip Mexican companies--is listed on the New York Stock Exchange and three Mexican companies--TELMEX, TAMSA, and CIFRA--have issued American Depository Receipts and are registered in the U.S. over-the-counter market. Under the new foreign investment regulations special trust funds may be set up to liberalize foreign access to the Mexican stock market. These funds will allow non-Mexican nationals to participate in Mexican companies' profits but not in their administration or control.

I. Exchange Rate. Mexico has three exchange rates. The controlled exchange rate applies to most exports and imports, debt payments, and in-bond industry receipts. The official free rate is the rate commercial banks use to buy and sell dollars. The private free rate is the rate offered at the exchange houses. The difference between the controlled and free rates has remained at or below 1.5 percent throughout 1989.

The peso has been devalued at about one peso per day against the U.S. dollar since the beginning of 1989, and this is policy is to continue until the end of the current phase of the PSEG, March 31, 1990. Through November 15 the controlled peso has fallen about 14.6 percent in nominal terms. However, in real terms it depreciated by slightly more than three percent against the dollar (taking into account relative inflation rates between Mexico and the United States). This contrasts with 1988, when the peso was frozen against the dollar for most of the year as an anti inflationary measure under the PSE. As a result, the controlled peso appreciated almost 30 percent in real terms against the dollar last year.

J. Balance of Payments. During the first eight months of 1989 Mexico's current account registered a deficit of $3.1 billion. This was due primarily to a large shrinkage in the country's trade surplus which declined by more than $2 billion over the same period. This deficit was partially financed by a capital account surplus of $2.6 billion, reflecting increased capital inflows. For 1989 as a whole the Mexican government is currently projecting an overall current account deficit of about $5.6 billion, up from $2.9 billion last year. Mexico is likely to run large current account deficits for the foreseeable future, largely because trade liberalization and economic expansion will continue to fuel import growth.

For the first eight months of 1989 Mexico maintained a small trade surplus, $274 million, down almost 90 percent from the same period in 1988. Merchandise exports were up about 7.5 percent, with the growth evenly split between petroleum and non-petroleum exports. Crude petroleum exports benefited from a steady rise in oil prices through August and they rose by more than 14 percent during the first two-thirds of the year. Petroleum product exports, however, were down by 43 percent. Manufactured exports were up 9.6 percent, but this was partially offset by poor export performances by the mining and agricultural sectors which suffered from falling international prices. Agricultural exports also were hampered by poor weather.

Merchandise imports rose 28 percent in the first eight months of 1989 compared to the same period a year earlier. The growth rate has slowed markedly from 1988, when it was 55 percent. Consumer goods have registered the largest percentage increase, 111 percent. Part of this was in luxury goods, but part also was a large increase in food imports. Imports of intermediate and capital goods have also been strong, in part because of investment demand. In general, Mexico is still seeing the effects of its import liberalization, which sharply reduced tariff rates and import licensing requirements over the past two years. While the import growth rate will continue to decline, imports probably will remain strong as long at the economy continues to expand. Thus, the trade account will probably move into a slight deficit for 1989 as a whole and for 1990 as well.

The in-bond, or maquiladora, sector continues to be a highlight in the balance of payments. It is the second largest net source of foreign exchange (after petroleum) and generated $2 billion (a 40 percent increase) in revenues in the first eight months of 1989. (Note: Mexican statistics do not include in-bond import or exports in trade data, while U.S. statistics do.) Meanwhile, net tourism revenues have fallen, and the automobile sector has replaced tourism as the third most import net source of foreign exchange. Tourism income was up slightly, but expenditures by Mexicans traveling abroad was up more than 50 percent, reducing net income by about 20 percent to $854 million during the January-August 1989 period. Interest payments on Mexico's external debt were $5.9 billion in the first nine months of 1989.

Mexico accumulated a capital account surplus of $2.6 billion during January-August 1989. This compares with a slight deficit in the same period in 1988. Short-term net capital inflows were particularly encouraging as investors sought to take advantage of the favorable macroeconomic environment and of high real domestic interest rates. The Central Bank announced that by the end of July, net capital repatriation for the first seven months of the year totaled $2.3 billion.

From December 1988 to June 1989 gross international reserves dropped $1.197 billion, from $6.558 billion to $5.392 billion. However, they subsequently began to rise again, reaching $7.324 billion by the end of October.

Table 12

Mexico's Balance of Payments, 1988-1989

(U.S. Dollar Millions)

	January - June 1988	January - June 1989	Percent Change 1988/1989
I. Current Account Balance	3,425.3	-2,002.0	N/A
A. Merchandise Trade Balance	2,391.5	349.1	-85.4
1. Exports	10,713.0	11,531.0	7.6
2. Imports	8,321.5	11,181.9	34.4
B. Tourism (Net)	1,044.4	854.1	-18.2
C. In-Bond	1,043.0	1,456.6	39.7
D. Frontier Transactions (Net)	-225.4	-362.2	60.7
E. Interest Payments	-8,096.7	-8,891.1	9.8
F. Other	898.4	1,100.7	22.5

II. Capital Account Balance	-345.2	1,140.1	N.A.
A. Long-term Capital	- 1,109.9	-246.1	-77.8
Liabilities	-589.7	90.6	N.A.
Banking Sector	263.4	609.7	131.4
Public Sector	369.9	-203.5	N/A
Private Sector	-816.4	-7.9	-99.0
Direct Foreign Investment	1,066.4	978.1	-8.3
Other	-1,882.8	-986.0	-47.6
Redocumentation and Other Finance	-406.6	-307.7	-24.3
Assets	-520.3	-336.7	-35.3
B. Short-term Capital	764.7	1,386.2	81.3
Liabilities	-428.1	-529.6	23.7
Banking Sector	-212.9	-369.8	73.7
Public Sector	-73.4	-79.3	--8.0
Private Sector	-141.8	-80.8	-43.2
Foreign Firms	-127.2	-166.2	30.7
Other Firms	-14.6	85.7	N/A
Assets	1,192.8	1,915.9	60.6
III. Errors and Omissions	830.9	-106.7	N/A
IV. Reserve Change 1/	442.1	-1,196.5	N/A

1/ Includes demonetization of gold and silver and valuation adjustments.

K. Parastatal Sector. In 1989 the Mexican government continued to carry out its program to disincorporate non-strategic and non-priority parastatals through sale, liquidation, merger or transfer to state governments. Most notable among the firms that have been privatized are the airlines Aerovias de Mexico (Aeromexico) and Compania Mexicana de Aviacion (Mexicana), and Mexicana de Cobre, a large copper company that was sold for $1.36 billion in Mexican Government foreign debt instruments. Other large parastatals in the process of being privatized are Telefonos de Mexico, the telephone company that is 51 percent state owned, Cananea, a billion dollar copper mining company, Dina, Mexico's only heavy truck producer, and most of the 50 state-owned sugar mills. Conasupo, the state food distribution network, will sell its food production subsidiaries. Other possible candidates the government has mentioned for privatization are PIPSA (the newsprint monopoly), IMECAFE (the coffee export institute) and Fertimex (the fertilizer monopoly).

Between 1982 and 1989 over 800 state-owned entities were selected for disincorporation and 59 new state entities were created. Once the entire disincorporation process has been finished the parastatal sector in Mexico is expected to be only about 400 entities, down from over 1,150 entities in 1982. Of this total only 85 will be industrial companies. The government's objective is to withdraw entirely from certain industrial areas such as automobile production, secondary petrochemicals, chemicals and pharmaceuticals, airline service, textiles, cement, and domestic electronic appliances. The Mexican authorities also hope to reduce public sector ownership in the steel, mineral metalurgy and tourism sectors.

In the state-owned industrial sector the government has made good progress in reducing subsidies. In 1988 fiscal transfers were made to only 22 companies compared to 49 companies in 1983. Furthermore, the size of these transfers has been reduced from 2.5 percent of GDP to an estimated 1.3 percent of GDP. Nearly 80 percent of subsidies in 1988 were used for for the generation of electricity, sugar and fertilizer production.

L. Foreign Investment. In the first eight months of 1989, total inflows of direct investment recorded in the balance of payments were $1.3 million, down slightly from the same period in 1988. For the year 1988, direct investment was $2.6 billion versus $3.2 billion in 1987. Investment was particularly strong in 1987 because of the debt-equity swap program and tapered off in 1988 after the program had been suspended. However, actual investments recorded in the balance of payments remained strong in the first half of 1988 because of continuing disbursements of funds under previously approved debt/equity swap transactions.

As part of the debt negotiations with foreign commercial banks, Mexico will open a new debt/equity swap program. Starting in mid-1989 the program will last 3.5 years, with up to $1.0 billion in swaps per year, for a total of up to $3.5 billion. The swaps are limited to privatization of parastatal enterprises and infrastructure projects, and participation by both Mexican and foreign investors is permitted. The previous debt/equity swap program was suspended by the government in November 1987 on the grounds that it was inflationary and offered unwarranted subsidies. Under the program, which was in effect from May 1986 to November 1987, $2.95 billion in debt/equity swap transactions were approved.

According to the National Foreign Investment Commission (NFIC), the value of new foreign investment authorized in Mexico was $3.1 billion in 1988, compared to $3.9 billion in 1987 and $2.4 billion in 1986. This year the figure is expected to be

$2.5-$3.5 billion. Not all authorized investment actually flows into the country during the year that it is approved, however. The government estimates that total authorized foreign investment at the end of 1988 was $24.1 billion, up from $20.9 billion in 1987. Some 64 percent of foreign investment is in manufacturing, 34 percent in service industries and commerce, and about 2 percent in mining. In 1988, investment in the service sector made up 70 percent of the new investment, which for the first time received more than the industrial sector. At the end of 1988 the United States was the leading source of authorized foreign investment with 62.1 percent of the total, followed by Great Britain (7.3 percent), West Germany (6.6 percent), and Japan (5.5 percent).

On May 15, 1989, the Secretariat of Commerce and Industrial Development announced sweeping new Mexican foreign investment regulations. The most important of these is the explicit permission for foreigners to have majority ownership in companies in most sectors of the economy. This is in effect a reversal of the intent of the 1973 Foreign Investment Law which in most cases limited foreign ownership to 49 percent.

The new rules make it clear that the Mexican authorities want to attract additional foreign investment into the country and increase the proportion of foreign investment to total investment. This is part of the drive to make the economy more efficient and internationally competitive.

Approval for majority foreign ownership must be authorized by the Ministries of Commerce and Industrial Development and Foreign Relations. In order to obtain automatic approval for majority foreign investment six criteria must be met:

1. No more than $100 million can be invested in fixed assets.

2. Direct external funding must be provided through subscriptions of capital, external credit, or foreign funds intermediated by Mexican financial institutions.

3. The location of the investment must be outside the country's three major industrial cities--Mexico City, Monterrey and Guadalajara.

4. The investor must maintain at least a balance between foreign exchange income and outlays during the first three years of operation.

5. Permanent jobs and training must be created for workers.

6. Adequate technology to satisfy existing environmental requirements must be assured.

If foreign investors do not meet all six criteria they may apply for majority foreign ownership and the Mexican authorities must approve or disapprove applications within 45 working days.

The government has also announced that special trust funds will be set up to liberalize foreign access to the Mexican stock market. These trust funds will consist of "mutual capital" that will allow foreigners to participate in Mexican companies' profits but not in their administration or control. In addition, in some cases temporary access to certain sectors generally limited to Mexicans will be allowed under 20 year trusts. These situations usually involve Mexican companies with high export potential and companies experiencing financial difficulties.

Strategic areas that will continue to be reserved for the state include: (1) oil and other hydrocarbons; (2) basic petrochemicals; (3) mining of radioactive materials (uranium); (4) operation of nuclear energy generators; (5) minerals included in the national reserve (sulphur, phosphorus, and potassium; (6) electricity; (7) railroads; (8) telegraphic and radio telegraphic communications; and (9) banking.

The areas reserved for Mexican nationals are: (1) radio and television; (2) automotive, air, and maritime transport; (3) forestry; (4) distribution of gas; (5) stockbrokerage and exchange houses; (6) credit unions; (7) fixed rate mutual funds; (8) warehouses; and (9) fishing cooperatives, especially those devoted to reserved species such as shrimp and abalone.

Foreign investment is limited to minority ownership in the following areas: (1) mining; (2) secondary petrochemicals, (3) auto parts; (4) fishing; (5) explosives and firearms; and (6) financial leasing.

M. Petroleum Sector. The Mexican economy remains heavily reliant on petroleum production and exports, although the dependence has been reduced substantially in recent years. During the first eight months of 1989 crude oil production averaged 2.5 million barrels per day. Almost half of the oil is refined and consumed domestically. Proven oil reserves total 46.2 billion barrels and total hydrocarbon reserves, which add natural gas to oil, are estimated at 67.6 billion barrels. Furthermore, Petroleos Mexicanos (commonly known as PEMEX), the government owned oil monopoly, has identified hundreds of promising structures, particularly in the Gulf of Mexico.

The rise in oil prices in 1989 has resulted in a rebound in total petroleum export earnings. For the first eight months, the average price for Mexican oil exports was $15.33, 23 percent higher than the average for 1988. This resulted in a rise in crude oil export earnings to $4.3 billion, up $612 million from the first eight months of 1988. Average daily crude oil exports during January-August 1989 were 1,294 million barrels. Crude oil has accounted for 90 percent of petroleum product exports and refined products made up the balance so far this year. Exports of refined products have fallen by about 40 percent in 1989. Mexico reduced exports of crude petroleum by five percent starting in the second quarter of 1989 as part of its agreement with the Independent Oil Producers Group. Exports of refined products and, to a lesser extent, crude patroleum have fallen because of heavy domestic demand for gasoline and refined products. Through August demand for gasoline was up 13 percent over the same period in 1988.

Table 13
Petroleum Production

	Crude Production	Crude Exports	Total Hydrocarbon Exports	Percent of Total Exports
	(Thousands of barrels/day)		(U.S.$ Millions)	
1977	981	202	1,018.7	21.9
1978	1,209	365	1,837.2	30.3
1979	1,461	533	3,986.5	44.7
1980	1,936	828	10,401.9	68.0
1981	2,312	1,098	14,574.0	75.0
1982	2,746	1,492	16,594.5	79.0
1983	2,665	1,537	16,164.9	74.9
1984	2,685	1,525	16,601.3	69.0
1985	2,630	1,438	14,606.0	68.0
1986	2,428	1,290	6,307.2	39.3
1987	2,541	1,345	8,629.8	41.8
1988	2,507	1,307	6,709.1	32.5
1989 (Jan-Aug)	2,520	1,294	5,147.9	33.7

In response to lack of public sector resources for investment PEMEX has been postponing new projects, reducing the number of new drilling and exploration wells, and cutting the number of construction contracts, while trying to keep up levels of production and exports. The company hopes to begin reversing this trend in 1990 as its investment budget is to be increased by 7.3 percent in real terms.

Petrochemical production for 1988 was 18 million tons. The value of this production was about 2.5 percent of GDP. 1.3 million tons of this production worth $917 million was exported, but imports were 2.0 million tons valued at $1,177 million, for a deficit of $260 million. Basic petrochemicals are reserved for state production, but the private sector is permitted to produce secondary petrochemicals. In 1988 thirty-six products were reclassified from basic to secondary and another fourteen were reclassified in 1989.

M. GATT and Trade Liberalization. On August 24, 1986, Mexico became the 92nd member of the General Agreement on Tariffs and Trade (GATT). As part of its GATT accession process Mexico agreed to bind tariffs on 373 products. About 75 percent of these were tariff bindings sought by the United States, and in most cases the rates currently in effect are significantly lower than the finding agreed. Mexico also agreed to eliminate import quotas for a small number of consumer and intermediate goods. Mexico signed the GATT Codes on Standards, Licensing, Customs Valuation, and Subsidies on July 21, 1987.

Between 1987 and 1989, Mexico has accelerated the pace of import liberalization. Official reference prices were eliminated and prior import permits greatly reduced. Approximately 95 percent of all tariff items, representing about 75 percent of trade by value, are now exempt from the prior import license requirement. In mid-December 1987, as part of its anti-inflation strategy, Mexico reduced the maximum tariff rate from 40 to 20 percent (versus an original end-1988 target of 30 percent). At the same time, the government eliminated the uniform general import tax of five percent it had imposed early in 1987. Mexico has also greatly reduced the number of items subject to export taxes and controls and has expanded government programs and financial incentives to exporters. Approximately $1.5 billion in World Bank loans have supported Mexico's trade liberalization.

In January 1989 the minimum tariff was raised from zero to 10 percent, while the maximum was kept at 20 percent. Some of the tariff items were reduced to five percent or back to zero in March (these were primarily basic foods, chemicals and construction equipment). This adjustment was partially to increase government revenues and partially to slow the very high growth rate of imports. It was also part of the general policy of rationalizing Mexico's tariff structure. The government remains committed to trade liberalization and hopes that it will be able to further reduce tariffs once the country's domestic financial and balance of payment positions permit.

The rationalization of the system of trade protection in Mexico in 1988 and 1989 has made an important contribution to reducing the rate of inflation. It has increased the availability of imports, thereby insuring greater price competition with local producers.

In addition to joining the GATT, under a Bilateral Subsidies Understanding with the United States, Mexico eliminated its remaining subsidies on export financing at the beginning of 1987. The United States and Mexico agreed in November 1987 to a Bilateral Trade and Investment Framework Understanding establishing principles to settle trade and investment disputes between the two countries. Bilateral agreements under the framework were negotiated on textiles, steel, and alcoholic beverages in December 1987. Several subsequent sessions have been held to discuss a variety of trade issues, including intellectual property right protection, services, and investment.

In October 1989 the presidents of Mexico and the U.S. signed an additional understanding to promote further trade and investment facilitation. Meetings between the two countries will begin before the end of the year, focusing on a variety of products and interrelated issues such as customs practices. The purpose of the meetings will be to improve market access, in selected areas, between the United States and Mexico.

O. Agricultural Situation and Outlook. In 1989 Mexico's agricultural production is expected to show little or no growth. A series of natural events (drought, frosts, and low reservoir levels) and economic realities (uncertain guarantee prices, tight credit, and high input costs) have all contributed to limiting output. Wheat, soybean, and rice harvests are expected to increase in 1989, while sorghum, dry beans, and barley production will decline. Corn production is expected to remain flat. Total grain production is expected to decline slightly, and oilseed production should increase by 20 percent.

For late 1989 and early 1990 reservoir levels appear adequate in most parts of the country with the exception of central Mexico. This indicates that winter wheat and barley production is likely to remain stagnant, while vegetable production is expected to remain strong. The availability and cost of credit for financing 1989 production will again be a factor, as will the government's official guarantee producer prices in determining agricultural production.

Mexican livestock production has remained stagnant in 1989. Livestock output in Mexico is hindered by high production costs and controlled wholesale and retail prices, which have constrained the industry's growth. Mexican imports of livestock products increased dramatically in 1988 and 1989, and are expected to continue to be strong in 1990. U.S. exports of livestock products increased 19 percent in January-July 1989 compared to the same period in 1988. The largest increase in that period was pork and lamb products, up 84 percent and 33 percent respectively. The United States is by far the largest supplier of livestock product exports to Mexico which is the largest export market for U.S. livestock products.

III. Short-Term Economic Outlook

The economic outlook for Mexico has improved considerably in the past year. The economy is growing at a surprisingly strong rate and is expected to continue expanding in the near future. This growth has been generated primarily by the private sector, as the government has stuck to its economic stabilization program. Inflation is moderate and is expected to remain so. This year it should be about 20-21 percent and in 1990 it is projected to be a bit lower. The government has reaffirmed its commitment to the structural reform program, modifying the foreign investment regulations, deregulating trucking, announcing the privatization of several major parastatals, and implementing policies to make domestic producers more internationally competitive.

A major contributing factor to Mexico's brighter economic prospects has been the renegotiation of its public sector external debt and the reduction in private sector external debt. The Mexican authorities believe that they should now be able to reduce the net outflow of resources required to service the debt to the equivalent of about 2 percent of GDP annually compared to about six percent of GDP in recent years. This should free up additional resources for investment, the lack of which has hampered economic expansion for most of the 1980s.

The economic turnaround in 1989 is largely attributable to the success of the government's anti-inflation and structural reform programs. These programs have moderated inflation, improved public sector finances, made Mexican manufactured exports competitive, and reduced domestic inefficiencies. Equally important is the improvement in private sector confidence, seen in increased investment and capital repatriation. This confidence stems from the consistency and predictability of the government economic policies, the debt renegotiations, and the increasing domestic and international popularity of the Salinas administration.

There remain a number of significant concerns, but with care they should manageable. One potential problem, interestingly, could be excessive growth. In his November 1 State of the Union address the President cited the fact that Mexico is resuming growth at a faster pace than is desirable because the lack of investment in infrastructure during the years of crisis could now lead to bottlenecks and inflationary pressures. Thus, economic policy currently is aimed at tempering demand and encouraging expansion in supply.

A major challenge for the rest of this year and in 1990 will be to successfully modify relative prices and relax price controls while maintaining moderate inflation. Some adjustments have taken place, but pressures remain for further price and wage increases, some of which probably will occur in December and January. The Pact for Stability and Economic Growth likely will be extended in some form beyond its current expiration date of March 1990, perhaps with a mechanism to allow for the gradual adjustment of prices.

Another key to maintaining positive momentum is further tempering of the public sector deficit and monetary growth. Significant advances have been made in reducing the fiscal shortfall in 1989 but the deficit is still too large. The government has ambitious targets for the public sector income and spending accounts next year and if they are achieved this will greatly enhance the prospects for stable and sustainable economic growth in the future.

High real domestic interest rates remain a major problem for government finances, and the interest cost of domestic debt is about 30 percent of public sector expenditures. Interest rates fell after the announcement of the debt agreement but are now rising and are expected to rise for the balance of the year and into early 1990. This is due to greater demand for credit from the public and private sectors, the need to promote increased domestic savings and the desire to promote private capital inflows from abroad.

Developments in the balance of payments are also important for Mexico. On the positive side, manufactured exports are still growing and international petroleum prices are favorable. Also, the interest costs of the foreign debt will fall in 1990 as the new debt package is put into place. Nonetheless, the current account is in deficit and probably will remain so in the next few years. With economic growth accelerating there will be strong demand for imported goods so modest trade deficits are likely as well. The challenge will be to keep the current account deficit manageable and find the capital inflows to finance it. Mexico hopes to maintain a capital account surplus through greater foreign investment, repatriation of flight capital, and fresh credits.

Finally, exchange rate policy is crucial to the success of the government's economic program. The government has announced that the current policy of devaluing one peso per day will continue until March 31, 1990. Furthermore, based on the General Criteria of Economic Policy sent to the Mexican Congress in mid-November it appears as though the government's current plans are to maintain the one peso a day movement throughout the year if conditions permit. Their ability to do so will depend most importantly on movements in international reserves. These must be kept at adequate levels, primarily through export growth, debt relief and capital inflows.

The following table shows the Mexican govenment's initial estimates for 1989 and projections for 1990 for critical variables in the Mexican economy.

Table 14
Estimated Evolution of the Mexican Economy
1988-1990

	1988	1989	1990
Production and Prices			
Nominal GDP (pesos trillions)	397.6	419.9	605.3
Real GDP Growth	1.1	2.5	3.5
Inflation (Dec.-Dec.)	51.7	20.9	15.3
Public Finances (percent of GDP) 1/			
Financial Deficit	11.7	6.3	1.6
Operational Deficit	3.5	1.8	-2.5
Primary Surplus	8.0	7.8	10.2
Total Interest	16.6	13.5	10.4
Budget Income	28.7	28.1	30.7
Petroleum	9.8	9.0	8.1
Non-Petroleum	18.9	19.1	22.6
Programable Expenditures	18.0	18.1	18.3
Financial Variables			
Average Interest Rate	67.6	44.8	35.1
Percentage Change in Real Exchange Rate 2/	-23.2	0.7	2.8
Percentage Change in Real Financial Savings	8.1	25.0	14.1
Percentage Change in Real Financing to the Private Sector	24.3	44.2	18.3

Balance of Payments (dollars millions)			
Current Account	-2,901	-5,582	-4,292
Merchandise Imports	18,903	22,895	24,958
Merchandise Exports	13,949	15,213	16,677
Petroleum Volume (MBD)	1,315	1,262	1,230
Average Petroleum Price (dpb)	12.3	15.1	13.0
The Budget (Ratio to GDP)			
Financial Deficit 3/	11.7	6.3	5.3
Primary Economic Surplus	8.0	7.8	10.2
Budgeted Income	26.7	28.1	30.7
Pemex	9.8	9.0	8.1
Other	16.9	19.1	22.6
Programable Expenditures	18.0	18.1	18.3
Current	11.7	11.9	12.1
Investment	3.7	3.5	3.8
Transfers and Other	2.6	2.7	2.4

1/ Includes the effect of the negotiated reduction of the public sector external debt.

2/ Index calculated in relation to the U.S. dollar, with 1978 as the base year.

3/ Excludes the effect of the negotiated debt reduction in 1990. If this is included the financial deficit for 1990 is projected at 1.6 percent of GDP.

Source: Criterios Generales de Politica Economica, Presidencia de la Republica Mexicana, November 1989

IV. Business Opportunities and Services to U.S. Business in Mexico

The prospects for U.S. trade with Mexico during the rest of 1989 and in 1990 are excellent. During 1988, United States-Mexico trade increased 25 percent to $44 billion (U.S. data, which includes in-bond exports and imports). Mexico thus became the United States' third largest trading partner. The increase in two-way trade was driven largely by a 40 percent increase in U.S. exports to Mexico. This rapid expansion in United States-Mexico trade has continued throughout 1989. During the first six months of 1989, U.S. exports to Mexico rose by another 33 percent over the same period in 1988 and our two-way trade rose by 24 percent. At this rate, United States-Mexico trade will reach almost $55 billion this year.

The increase in U.S. exports has resulted primarily from Mexico's dramatic liberalization of trade regulations, part of an overall government strategy of economic restructuring emphasizing outward oriented policies and international competitiveness. The increased resources for economic modernization should enable Mexican industry to become more internationally competitive and position them to contribute to increased exports of Mexican goods. Since Mexican manufactures traditionally contain a high percentage of U.S. content, this will create additional opportunities for U.S. suppliers of raw materials, components and machinery.

The United States' imports from Mexico rose 14.7 percent in 1988 to a record $23.5 billion despite a decline in the price of oil, the country's largest single source of export revenues. Again this year, U.S. imports from Mexico have risen by another 17 percent in the first six months over the same period in 1988. The government's outward-oriented policies thus have resulted in a diversification of Mexico's exports that will continue to benefit the country. This reduced dependency on oil will enable Mexico to cope better with any future oil slumps and to achieve new record levels of export earnings if and when the price of oil rises in world markets.

Mexico is the third-largest market for U.S. exports. Intermediate goods, such as automotive and electronics parts, account for much of the United States' exports to Mexico. However, U.S. exports of primary products, such as synthetic resins and chemicals, agricultural products such as corn, soybeans and meat, and consumer goods continue to perform well.

Mexico and the United States have also agreed that increased U.S. foreign investment in Mexico, as well as trade, would yield positive benefits for both countries. Therefore, the two countries have begun to formulate a program of jointly promoting the trade and investment opportunities that exist in each country. This program will result in the two nations sharing information and cooperating in the promotion of even deeper bilateral commercial relations. A concrete expression of this new resolve was the Secretary of Commerce's recent Business Development initiative in Mexico which brought together sixteen Chief Executive Officers of large U.S. corporations and leading Mexican public and private sector officials to explore how Mexico and the United States can expand the economic relationship even further.

The U.S. and Foreign Commercial Service offices in Mexico have identified several areas with exceptional export potential for 1990: Telecommunications Equipment and Services; Oil and Gas Field Machinery and Equipment; Industrial Plant Design, Engineering and Maintenance Equipment and Services; Computers, Peripheral Equipment and Software; Machine Tools and Metalworking Machinery and Equipment; Pollution Control Equipment and Instruments; Hotel and Restaurant Equipment; Petrochemicals

Processing Equipment and Systems; Industrial Process Controls; Plastics Production Machinery and Equipment; Agricultural Machinery and Equipment; and Mining and Construction Machinery and Equipment. While these areas have been identified as particularly strong, virtually all U.S. products have been performing very well in the Mexican market since import restrictions were eased.

Telecommunications Equipment and Services: The Mexican market for telecommunications equipment in 1989 has been estimated at $409 million dollars and is expected to grow at an average annual rate of 6 percent through 1991. Imports from the United States during 1989 are expected to reach $63.4 million and continue growing at an average annual rate of 10 percent through 1991. The Mexican market for telecommunications equipment is open to imports and the Mexican Government and private sector have indicated that modernization of the infrastructure and expansion of the range of services available are a national priority. The Government has announced its intention to privatize the national telephone company and has indicated that competition in the provision of value added services will be permitted. Foreign participation up to 49 percent in firms providing services is now permitted.

Oil and Gas Field Machinery and Equipment: The total Mexican market for domestic and imported oil and gas field equipment and machinery during 1989 is estimated to have been $1.79 billion of which imports from the United States accounted for $406 million. The outlook for growth in this sector is very modest; the total market probably will grow by no more than one percent per year and imports by no more than two percent on average through 1991. Nevertheless, the state owned oil company, Petroleos Mexicanos (PEMEX), is the fifth largest oil company in the world and its procurement remains substantial. U.S. firms are the most important foreign suppliers to PEMEX.

Industrial Plant Design, Engineering and Maintenance Equipment and Services: This is a new area for foreign participation. The total market for these types of equipment and services is expected to reach $686 million by the end of 1989 and continue growing through 1991 at an average annual rate of 12.8 percent. Imports from the United States are expected to be $400.5 million in 1989 and continue growing at 12 percent per year through 1989. The market for equipment is open. There are also significant and growing opportunities for U.S. firms to participate in the provision of services, primarily on a joint venture basis with a Mexican firm.

Computers, Peripheral Equipment and Software: The Mexican market for computers, peripheral equipment and software will reach $774 million in 1989 and is expected to continue growing at an average annual rate of 18 percent through 1991. Imports from the United States in 1989 are expected to reach $160 million and continue growing at an average rate of 20 percent per year through 1991. The computer equipment industry in Mexico is governed by an administrative development program which limits imports of equipment through the use of import permit requirements and encourages domestic production. Several U.S. firms currently produce in Mexico. Firms producing in Mexico receive preferential access to import permits as do firms seeking to import computer equipment not produced in Mexico and not imported by firms that are producing in Mexico. The Government has indicated that it intends to liberalize the regulations governing the production and importation of computer equipment in the future. If this happens, imports could rise even more rapidly.

Machine Tools and Metalworking Machinery and Equipment: The machine tools and metalworking machinery and equipment market continues to be a strong one. The total market for these products is expected to reach $391 million by the end of 1989 and continue growing through 1991 at an average annual rate of 11.5 percent. Imports from the United States should reach $163.5 million in 1989 and continue rising at a rate of 12 percent per year through 1991. The aggressive industrial modernization program being undertaken by the Mexican private sector as its seeks to become more competitive in international markets should assure that demand for these products will remain strong for the foreseeable future.

Pollution Control Instruments and Equipment: The Mexican Government has placed a high priority on pollution control and environmental conservation. The Mexican market for pollution control products is expected to reach $208 million in 1989 and grow at a average annual rate of 10 percent through 1991. U.S. exports are expected to be $14.5 million in 1989; however, imports from the United States are expected to surge 20 percent per year through 1991. The Government's commitment to pollution control and environmental conservation, buttressed by strong and growing public support for action, especially in metropolitan Mexico City, will serve as the engine for rapid market growth during the years to come.

Hotel and Restaurant Equipment: The Mexican Government has identified tourism as a priority development sector for the next five years. To encourage rapid development of the tourism sector, the regulations governing foreign participation in this sector have been eased and the Government is actively courting new foreign investment. The market for hotel and restaurant equipment is expected to reach $208 million in 1989 and continue growing at an annual rate of 10 percent per year through 1991. Imports from the United States in 1989 are expected to be $13.5 million and continue growing at an average annual rate of 15 percent through 1991. U.S. investors have expressed strong interest in increasing their participation in this industry, which should translate into increased opportunities for U.S. exporters of hotel and restaurant equipment.

Petrochemicals Production Equipment: The Mexican Government has liberalized its regulations on private sector and foreign participation in the production of petrochemicals as part of its effort to encourage greater development of this priority sector. The total market for this equipment in 1989 is expected to be $300 million, of which U.S. made equipment will account for $250 million. Total market demand, as well as the demand for U.S. imports, is expected to rise at an average annual rate of 5 percent through 1991. In addition to the option of investing in a petrochemicals production company on a joint venture basis, U.S. firms also have the option of constructing production facilities for petrochemicals manufacturers and then leasing the facilities to them. Both options offer U.S. exporters of this type of equipment significant opportunities for the future.

Industrial Process Controls: The Mexican market for process controls is expected to be $129 million in 1989 and to continue growing at a rate of 4 percent per year through 1991. Imports from the United States dominate the market and are expected to total $76 million in 1989. Imports of U.S. equipment should continue to rise at an average annual rate of 5.3 percent through 1989 as Mexican firms increasingly seek to improve quality and efficiency as part of their effort to become more internationally competitive. The food processing and the oil and gas extraction industries currently are the largest consumers of these products.

Plastics Production Machinery and Equipment: The market for plastics production machinery and equipment is expected to reach $39 million in 1989, with U.S. manufacturers supplying $35 million of the products purchased. The industry is not expected to grow very much over the next few years; however imports of equipment from the United States are expected to rise at a rate of nearly 15 percent per year through 1991 as this industry, like so many others, seeks to improve its competitive position in world markets.

Agricultural Machinery and Equipment: The United States enjoys a very strong position in the Mexican market for agricultural equipment and machinery. The total demand for this type of machinery and equipment in 1989 is expected to be $187 million dollars, of which $70 million will be satisfied by imports from the United States. This market is not expected to grow very much in the next few years; however the Mexican Government has expressed its commitment to promoting further development of the agricultural sector. This policy should offer U.S. exporters a stable export market through 1991 and a growing one in the years thereafter.

Mining and Construction Machinery and Equipment: The Mexican market for mining and construction machinery and equipment is another one where U.S. firms enjoy a very strong position. The total market for these products in 1989 is expected top reach $46 million, of which $32 million will be supplied by U.S. firms. Both total market demand and the demand for imports from the United States are expected to grow at an average annual rate of 9 percent through 1991. The mining sector has great potential and the Mexican Government is seeking to encourage its development by privatizing several mining enterprises and by permitting greater foreign investment in this sector. The Government has also indicated that it intends to undertake numerous civil construction projects, and to even permit private sector and foreign participation in the construction and operation of toll roads.

The U.S. and Foreign Commercial Service offers a number of services to support the efforts of U.S. firms to export to and do business in Mexico. Among the services available to exporters of U.S. made products are assistance in finding potential representatives and distributors and in learning more about various market sectors through market research conducted in Mexico. The information is made available through the district offices of the International Trade Administration of the Department of Commerce and the Mexico Division of the Department of Commerce in Washington, D.C., as well as the Foreign Commercial Service offices in Mexico City, Guadalajara and Monterrey.

The U.S. Trade Center, a U.S. and Foreign Commercial Service facility in Mexico City, organizes a number of exhibitions every year to assist exporters of U.S. made products to gain exposure in the Mexican market and to locate potential representatives, distributors, licensees and joint venture partners. The exhibitions scheduled for 1990 are: "Petro-Avance 90," an exhibition of machinery and equipment for the petroleum and petrochemicals industries (Mexico City, January 23-25); "Maquinas y Herramientos 90," a machine tools and accessories exhibition (Mexico City, February 13-16); "Electronica 90," an electronic production and test equipment exhibition (Mexico City, March 27-29) (Spin-off: Guadalajara, April 1-2); "Computacion 90," an exhibition of computers, peripheral equipment and software (Mexico City, April 23-26) (Spin-off in Monterrey, May 2-4); "Hotel y Restaurant 90," hotel and restaurant equipment exhibition (Mexico City, May 22-24); "Ali-Pak 90," a packaging and food processing equipment exhibition (Mexico City, June 19-22); "Hi-Tech USA 90," an exhibition of high technology equipment and products for business and industry (Guadalajara, August 21-23); "Expo Viajes de Negocios," an exhibition and seminar promoting business travel to the United States (Mexico City, October 1-2); "Telecomunicaciones-90," an exhibition of telecommunications, radio, broadcasting and professional entertainment equipment (Mexico City, October 16-18); and "RepCom 90," an exhibition for new-to-market firms seeking Mexican representatives, distributors, licensees and joint venture partners (Mexico City, December 4-6).

The Department of Commerce will also organize numerous catalog shows, video catalog shows and trade missions in a wide range of product areas during 1990.

For additional information on the services available to U.S. firms seeking to export, contact the nearest local office of the International Trade Administration of the Department of Commerce. The telephone numbers are listed in the local telephone directories.

Specific information on doing business in Mexico can be obtained from:

Mexico Division - ITA
U.S. Department of Commerce
Room No. 3028
Washington, D.C. 20230
Tel: 202-377-4464

Commercial Section
U.S. Embassy - Mexico
P.O. Box No. 3087
Laredo, Texas 78044-3087
Tel: 011-52-5-211-00-42

Information on participating in the exhibitions sponsored by the U.S. Department of Commerce can be obtained from:

U.S. Trade Center - Mexico
P.O. Box No. 3087
Laredo, Texas 78044-3087
Tel: 011-52-5-591-01-55

Senator **Domenici**. I want to compliment you for your micro and macro statements. We all talk about the numbers and that is very, very dynamic; 2500 plants. Is there any major movement, that you see, of countries like Japan getting into the Maquila Program? Foreign countries in large numbers? It was principally an American/Mexican relationship for most of its existence.

Mr. **Mitchell**. I might say, Senator, it is still an American/Mexican primarily. We see the trend, though, in European companies as opposed to Japanese. Contrary to the common belief, there are not that many Japanese plants coming into Mexico. There is a lot of movement, a lot of looking as the Japanese see, but there are not that many that are actually signing. You will hear a lot about a lot of plants in Tijuana. A lot of them are mom and pop shops, ten to people. Significant-sized companies are not moving that rapidly. However, the European companies are coming into the maquila, and the reason that it is not very obvious is they do it differently than the Japanese. They buy U.S. companies. I used to say that in the Bermudez Park we had 98 percent U.S. companies, and I looked up one day, and percent of that 98 were German, Swedish and European countries. So that is the trend today. I have been talking with several European Chamber of Commerce groups such as the French and British about this program. With this coming EC in 1992, they are becoming more interested in positioning themselves so they can take advantage of what will be the second largest market—the North American market.

Senator **Domenici**. Let me ask all three of you this question. It just dawns on me as an American that there is so much attention being focused on the development of the economies in Europe, first Europe 1992, but in addition, the Eastern Bloc countries having to move rather dramatically from economic activities that have been very, very weak to something new, somewhat in the direction of open economies. My guess is if we have a friend on the south called Mexico that truly wants to make their country modern from every standpoint in terms of economics, expectations and prosperity, I tend to think that we ought to focus a lot more of our attention on it rather than focusing most of our attention on Eastern Europe. In fact, I already have made up my mind as one Senator that I want to do that. I want to push people in Washington to think of this continent and include Mexico in it.

Do you have any observations? Let's start with you, Maria, then John and then you, Billy. We do not need a lot on it, but what do you think about that?

Ms. **Telles-McGeagh**. That sounds to me like a sensible move.

Senator **Domenici**. Do you think it would be justified based upon what you see in Mexico now? John? I do not want the Treasury Department of the United States——

Mr. **Sweeney**. I will just make one——

Senator **Domenici** [continuing]. Abandoning Europe. It would be all right with me if you did.

Mr. **Sweeney**. I will just make one point, Senator. When President Bush sent Ambassador Negroponte to Mexico, he said that if we look around the countries in the world, Mexico is one of our two most important relationships. The Soviet Union—our most difficult and important relationship—being one, and Mexico being the other. I think there is a very strong recognition of how important Mexico is in Washington, and I think that that is being shown by actions now. I think this was first pointed out by the meeting the two presidents had in Houston December a year ago. We have evolved a new phase in our relationship called the "Spirit of Houston," and both President Bush and President Salinas consider each other friends.

Senator Domenici. I think you have already expressed it, Mr. Mitchell, but would you just answer it briefly for me.

Mr. Mitchell. I would like to say that I want to compliment you on your thinking and of taking some positive action. I think it is long overdue. I would like to just point out one specific thing as an example of how we can work together and accomplish a better relationship. One is from a trade standpoint and has been mentioned before. I do not envy the Customs and immigration people with the dope situation and with the immigration problem. However, there seems to be a bottleneck in the process and the procedures. How do you separate the drug thing and the immigration thing from the trade so the trade can move smoothly? I think that the Mexican Customs people have taken some positive action to take advantage of the state-of-the-art use of the computer and this type of thing. We are moving very slowly behind a a Customs Service because I think we are steeped in the law enforcement as opposed to the service to the people. This is my thought, and I think that will go a long way toward bettering relations, improving the trade situation and making the overall situation much better.

Senator Domenici. You are saying you cannot have the big dream if you have the little hang-ups, and these are pretty bad, you think.

Mr. Mitchell. Yes, sir.

Senator Domenici. We will have some hearings on that. I know we have dual-purpose activities, but I think we have to recognize that if we are going to have this kind of relationship and if they want to grow and prosper and have trade running both ways, we have to find the most modern and efficient way of doing the two jobs. I think that you make a point. We surely cannot rest on our laurels, there is always a better way to do it. Thank all three of you very much. We are going to take a 10-minute recess.

[Recess.]

Senator Domenici. OK, could we get back in session here. Would somebody back in the back just sort of help me? If they want to stay in the hall, that is fine, but let's close the door.

OK, our second panel is made up of a representative of the executive branch in Mexico. We have Lic. Ernesto Enriquez Rubio. I think in our language, Ernesto, we would say that you are a deputy secretary of agriculture; is that a fair interpretation of what your job is?

Mr. Enriquez. Yes.

Senator Domenici. We are delighted to have with you us. We are also going to have Ms. Jo Ann Smith, Assistant Secretary for Marketing and Inspection Services, USDA, and Robert Toberman, Director of the Division of Marketing and Development in New Mexico's Department of Agriculture here in Las Cruces.

Mr. Enriquez, would you please pull the microphone up, and you will be our first witness. As I indicated in my opening remarks, this is a rather opportune time to hear from you in that over the weekend, there have been some changes in the Mexican cabinet with reference to agriculture. It is not my business to talk about that; You are in that department. I understand that over the weekend, the president of the Republic indicated there is a 12-point plan for agriculture in the Republic of Mexico. I assume only that he expects the new secretary to implement them. We know that agriculture is the basis for all prosperity. A country with as many people as you have and as good an opportunity to grow products for people, you are not going to have economic prosperity without an agricultural base that is doing well for its people and for itself. So we are hopeful that the new program will work and make agriculture a more sustained and vital part of your economy. With that, we look forward to hearing from you about agriculture in Mexico and its future and some of the problems you see with the United States.

STATEMENT OF ERNESTO ENRIQUEZ RUBIO, SUBSECRETARIO DE GANADERIA, SECRETARIA DE AGRICULTURA Y RECURSOS HIDRAULICOS, MEXICO, D.F.

Mr. ENRIQUEZ. Thank you, Mr. Senator. First, thank you for the invitation to be with you at this hearing. I certainly hope my English will be good enough so I can explain myself to all of you.

First I would like to make a statement to the three people that have talked before. They have mentioned the economic and about the problem in Mexico, especially what is called the federalization and economic growth pact of Mexico. This is not a pact only for freezing prices or wages, it's more than that. Every Tuesday, we meet agricultural worker unions, business people and government officials to pull up what is going on with inflation in Mexico every day—how prices are behaving, how wages are increasing or decreasing—but mainly, which are the major changes that we have to implement in the Mexican economy so that we really can bring inflation to the same levels with all of the countries where we have commerce—mainly the United States, Japan, Canada and Europe.

President Salinas has decided to do major changes in agriculture and livestock in Mexico. We completely agree that is one of the key points of the whole economy in all the world and, in Mexico, will be major changes and I will be mentioning these major changes. Later on, I will try to explain the impacts of these changes between relations of the United States and Mexico.

Well, the package that you have mentioned that President Salinas has for the country that will be dually performed and implemented within the next forthcoming weeks—so the due date is no later than February 12th.

The basic principals of these are, first, a new policy in prices. And also, new policy in costs. Usually, we have two fields in the agricultural economy—what we call the commercial agriculture and commercial livestock industry and what we call the low-income producers that they have different problems and I will try to mention them.

Well, we have three type of costs for agriculture and livestock. One that affects the national economy interest rates, for example, or exchange rate. The producers can do very little, only support and pull up the upholdings of the Federal Government.

The second cost that affect producers in Mexico are usually equipment or raw materials, and the policy there will be opening the borders so that our producers can get implements, equipment or raw materials at international prices.

And the third policy costs—and those are the responsibility of all the producers—they have to increase productivity, production, and they have to be capable to compete with international markets.

There will be a fantastic and gigantic change in this third policy with producers. And these will be the prices. Agricultural livestock prices will be level at international prices. So that means that all—some internal prices that are above international levels, they will have to be below—at same level—so there will be reduction of those prices. And some prices——

Senator DOMENICI. That will be competitive, you are saying?

Mr. ENRIQUEZ. Exactly. And those prices that are very low in Mexico, they will be level to international prices. This means less subsidies. The livestock industry has very little subsidies, but agriculture has some subsidies. And that means that commercial producers, they will have less and less subsidies in the next coming years.

We will give time to the producers for these changes. It's not a long period. We will give them time, and we will change the pattern of permits for tariffs. Right now, agriculture and livestock, percent of the total profits that we've changed they don't have permits anymore. And the tariffs, we dropped from 100 percent to 20 percent, the most. Thirty-three percent—34 percent of all the products—agriculture and livestock products—they don't have tariffs anymore. No permit—zero tariffs. Another 34 has 10-percent tariffs, and the remaining 36 they have 20-percent tariffs.

That placed a major change in the Mexican economy, where 6 years ago, 90 percent of all the imports, they need not only permits, but they have barriers.

So this will put pressure on the Mexican producers to increase productivity, production and to be competitive. Of course, there are some producers that because of the extension of the land that they own, I have to tell you that 80 percent of the total producers—farmers and livestock—in the social and private sector of Mexico own less than 80 acres, and that rainfall average in those areas, they are below—they are below 25 inches a year. Those know a lot of freeze and frost during wintertime.

So for these producers, there will not be subsidies in the prices, there will be another type of support ~~especially~~ to increase their income in other fields.

For the consumers, also, will be a major change. Before we had the subsidy policy, that usually was in favor of middle and upper classes. For example, milk prices. The milk prices are the same for low income, for middle class and upper class. So it means that subsidy is exactly the opposite of what our government wants.

So what will happen with prices is that middle class and upper class, they will be paying for the products that they need, exactly what they're worth. And low-income people mainly in cities and especially rural areas, that they make a wage less than $7 a day, they will have a special program so they will have milk, tortillas, beans, rice at a very low price, but the majority of the population, they will pay what they accept, market prices, international prices.

Another major change in prices for consumers that we will have different type prices for different type of products. For example, meat. If in the livestock industry we don't have differential prices, you cannot sell, at the same price, a steer that you have been feeding with sorghum and molasses or that you have been feeding just with grass or sometimes even with garbage. It's not fair for the producer and it's not fair for the consumer. So the steers that will be fed just with normal grass and the quality of meat—the protein—is the same but it's not a sound presentation and is not as if you have a low price. And those consumers that they have a very soft reach, the product potential will be the same with a very nice presentation that will pay higher prices.

Another case, for example, eggs. Eggs—the value in Mexico is the same for small eggs, big eggs. If you present them in cages or you present them just boxes——

Senator DOMENICI. Which have been accomplished by subsidies.

Mr. ENRIQUEZ. You're right. Now, not anymore. Not any more subsidies. And, of course, low income people, they will have eggs. The product contained will be exactly the same, but the presentation will be different. Corn. Yellow corn has more products than white corn has products. Yellow tortillas at one price and the white tortilla will have another price. But, of course, the product contained in both is exactly the same. So that's another major change.

Third, we will be implementing a major program that is considered a solidarity program where Federal funds have been allocated at about 1.4 billion U.S. dollars to support producers and consumers that they are making or earning less than $7 a day.

Another major change with this policy will be that some areas—some large areas that work producing agricultural products will be converted to livestock industry again. Before, as the subsidies were paid, producers could care less if they would produce ½ ton or 1 ton or 3 tons. Now they will be concerned that if they produce certain products less than 2 tons, they will be not making money. They will have support from Federal funds, so they will be changing or shifting from agriculture to livestock.

Senator DOMENICI. So marginal agricultural land that was heretofore subsidized may not be—or it might not happen.

Mr. ENRIQUEZ. No, but, of course, when you, as a Federal Government, have been supporting so heavily, especially agriculture, you cannot come 1 day and say, Sorry, not more. It will take years. But one thing that President Salinas wants—and I back it completely—is that it will be openly explained to them. They will know the rules very well, and they know 5, 10 years, 4 years, 8 years, where they produce efficiently or they will have to shift to another type of products. There are some producers that they will not be able to do it in the condition that they are.

Some of our producers, they are harvesting in areas where rainfall is less than 10 inches a year. In an average area that is below 4 acres per person, and areas where it's as steep as 25 percent, for them, we will have special programs to support them in that. And as I think that is one of the key roles of President Salinas 'policy.

Commercial producers, they will have a normal rate, and the low-income producers will have a variety of opportunities and always for the Federal Government until their critical conditions will change.

A second major policy is in the financial policy for agriculture. The nationalized banks that we call commercial banks will be furnishing credits to the commercial producers. The development banks will not be backing any more commercial producers. It will be the normal banking institutions.

Second, for those producers that they have the possibility to develop in a commercial producer permitting time, they will get support mainly from Banco Rural (phonetic) that is the developing agency of Mexico. And for those producers that they really, they cannot, at least in the short-term period, they cannot be a commercial producer because of these conditions.

There are three supports: The solidarity program at a very, very, very low interest rate, and in some cases, no interest rate, and the support of state and local governments. That's another major policy.

A third major policy is there will be strength in the investigation and technical assistance and field assistance to producers.

A major change is that for commercial producers, there will not be government free technical assistance. Commercial producers, they will be paying technical assistance.

The Federal Government will be following up this private technical assistance that will be furnished. And the Federal Government will, with the cooperation and participation of the universities, will be, to all these technicians that will be participating, furnishing a license, so guaranteeing to the producers that they know their job. The producers will pay for that.

Second, for those producers that they are in the stage to be developed—to be a commercial producer it takes time--they will be in agreement.

Senator **Domenici**. They will what?

Mr. **Enriquez**. There will be an agreement between them and fellow agencies—mainly Minister of Agriculture and Minister of Finance. The technical assistance will be furnished for the first year, 100 percent paid by the government. The next year, 75 percent; the next year is 50 percent; the 4th year 25 percent; and the 5th year, they have to pay their own technical assistance. If they are not willing to pay for that technical assistance, it's because they didn't get anything from that technical assistance.

Another thing that we will be favoring is that the technicians that will be furnishing technical assistance, part of the payment will be done in cash and part with the results of their technical assistance. So it means that if the livestock industry hires some technicians and the mortality rate is 5 percent, then in this situation what he will get will be a certain amount, but if the mortality rate drops from 5 to 4.7 percent then you get a bonus. If the mortality rate remains or increases, he will be kicked out, and I think that's another benefit. [Laughter.]

Another major change—and I don't know if I am taking too much time—

Senator DOMENICI. No, no, no—I don't know if you are for them, but you're not for me. I'm very excited. I'm just wondering if we should treat our Agriculture Assistance Service the same way. [Laughter.]

Senator DOMENICI. If we could ask some of our agriculture people, they might say we don't need some of it, why don't you quit giving it to us and making us pay for it.

Mr. ENRIQUEZ. Another major change in technical assistance is that—what we call the demonstration fields will be turned to the producers, and the producers will support at least 50 percent of the total cost of these fields. What we have, I realize, that these fields that were in our hands—the Federal Government—usually, producers didn't go there. Just once a year, they had a party where they want for—in this field—they wanted to show to the producers what they were—well, the research they have done and the results. Well, we have relied to this party usually assisted the students and friends of the commission, but the producers were not there.

So now we are changing these, and we are creating what we call—in Spanish it's patronatos—I don't know, it's like trusts—that will be handled by the producers where we will be allocating 50 percent of the costs, they will say to the technician, dammit, you study these, and you investigate these, and you practice these or there are no funds. So that's another major change.

Another major change is that, for example, the livestock area—that's one of my major fields of concern—will be turning 98 percent of the total Federal Government facilities to the producers, and its laboratories—labs—will be—all the farm fields that we have. I know the development institutions will return in the last—in the next coming 4 months to the private and social sector. For example, labs that we had—126 in the whole nation—we will be keeping two and the remaining will be handled by producers.

Senator DOMENICI. You don't lack for boldness, I'll tell you. I don't know if you understand what that means.

Mr. ENRIQUEZ. Yes; but these two laboratories—government controlled—they will be controlled and supervising the operation of those 124. If they are not doing a good job, we'll close it down. When producers deal with it at the beginning, they will be against this idea, because they always complain of government. They love to get support from government. [Laughter.]

Mr. ENRIQUEZ. When every time——

Senator DOMENICI. Be sure that you let them know that that's indigenous to the human race. [Laughter.]

Mr. ENRIQUEZ. So when they complain that labs were not performing well, and that in Europe they didn't serve for anything, you say, fine, they are yours. And they say, Well, but we want this and that and that, and you say, Well, if you think those labs they don't worth anything, Federal Government doesn't need them, so we discuss them, they took over, they run them.

Senator DOMENICI. They run them.

Mr. ENRIQUEZ. Another major change in this policy is that the reorganization of the Department of Agriculture of Mexico Secretaria de Agricultura and the organization of all the Federal agencies that have been working with agriculture and livestock of Mexico.

The first major change in the secretaria of agriculture is that we will reorganize not with the eyes or with the view of bureaucrats, but what the producers need. Before, usually, they were organized because the department of organizational ministry, they decided that this should be done this way or that. They forgot the secretaria of agriculture has been built to serve the producers. Know that the producers are really that the secretaria of agriculture instead of helping, it's another burden on the producers.

So the secretaria of agricultura will have a very large area that is called Comites Para Sujetivos (Participation Committee) where we will sit down, the producers, the technicians, people in industry, people from commercial and supermarket people areas, transportation people and governmental officials. And there will be the Treasury Department, Commerce Department and Agricultural Department. And every month, they will sit down and then the producer will come say, listen, I am not getting support from the transportation men, or the prices at supermarkets are painful for [inaudible]. It doesn't have to do anything with increasing prices with the consumers. They will meet every month. We have done it. The first meetings are terrible, but after 6 or 8 months, they start to learn to communicate with each other, and that's another major change.

Now in international market—and this, now, has to do lots with the States. As you know, agricultural and livestock exchange, at least for the 1990's, will be no less than four billion U.S. dollars between the States and Mexico. So that means that it's a very important market.

What is more, for the southern States of the United States and for the northern states of Mexico, it's changed between Texas, New Mexico, Arizona and California. And we've got California, Sonora, Chihuahua, Coahuila, Nuevo Leon and Tomaulipas. I think our producers, they understand much better than our governments in these areas. I think the relation between the southern States of the United States and the northern states of Mexico is really something that what has to be falling off very well. They know each other very well. They learn not to cheat each other very well. And they are sometimes crazy about some policies that move governments, they are decided, that they are against their interest in their world.

So we have—and I think we have been successful, and will be more in the future coming times—to develop a new relation between U.S. Department of Agriculture and Mexican Secretaria of Agriculture.

The first thing that we have agreed on during this meeting, is that we are not following and fooling around with papers. Whenever there is something important, we just grab a telephone or we just send a Telex. We will meet as many times as necessary to understand each other.

The second point is that we have to understand the point of the people. When [inaudible] calls me and tell me that the lamb industry in New Mexico—they are mad at me a because I closed the borders to the female lambs—I try to understand why she's telling me and how and why the New Mexico producers are—they want to export to Mexico. But also, I try to explain, and she tries to understand why Mexican producers, they are requesting the Mexican government to do this.

The third thing is that we have to make some things very clear. One, I think, is political issues and another thing are the technical issues, and we are not going to mix two things when it's something that has to be with health of animals or with health of plants, we will state it very firm and very clearly. When it's a political issue, we will discuss it and we will decide the political but no technical.

So Mexico will do a gigantic effort in the health problems. We are setting quarantines, not only the United States, but in the south of the states—Guatamala for instance. You have to understand that we could not ask, at least in Guatemala, to have quarantine stations and to be docking there when we are not doing the same with the United States. It's something that I think politically, you will understand very well. So the first thing we did was to set quarantine stations on the U.S. border so—and we can set quarantine stations on the Guatemalan northern border. So first we finish with U.S. where we have very mutual understandings in these health problems and then we went to the south to say, we have done it before we're going to do it to the south.

Senator DOMENICI. Would that be a political issue or a scientific issue?

Mr. ENRIQUEZ. No, I think it's a scientific issue if you read your code of regulations, it's stated there very clearly.

Senator DOMENICI. OK.

Mr. ENRIQUEZ. Now we have followed very well, I think, very strict to your code of regulations and we are not going to be changing that.

The second thing is that we are having very terrible complaints—health complaints in Mexico. For example, brucellosis and tuberculosis. I don't know if those are the right words in English. We have started a campaign in February of this year, and the goal is to have, under full control, no less than 50 percent of the total territory in Mexico within the next 4 coming years.

In March, we will start a new campaign the hog cholera campaign, and the goal is to eradicate, in the next 6 years, hog cholera in Mexico.

The next campaign that we will start no later than May this year is the tick campaign so that under control completely, free of ticks, 50 percent of the territory and under control in the other 50 percent in the next coming 5 years. This is basic for the change of livestock industry in Mexico and the states, Mexico and Japan, and Mexico and Europe. But it will be tough—very tough with what we are importing, especially From Europe and from Asia and from South America. So that we keep clean of mouth disease of hogs and some other illness that we have eradicated in Mexico, Canada and the States free from those countries.

So we are building up—really, we are building up—our airport control, our port control and our border control and there, we hope that within the next few coming years, we will be reliable as neighbors.

Finally I just wanted to state one point. When there is always limitations—or at least what people in the States think of as limitations—here's something that your people should be very proud of—your producers—you always meet 24 hours later that there is something that is affecting—at least, U.S. producers think that affect them—it's like the telephone company, they listen to what is going on. And Senators like you, Senator Domenici, 24 hours later, you are in the State Department saying, what is going on? And I think this has been learned by our producers and our senators, and our organizations are the same. And I think that's something that your people has to be proud and our people will be proud that both governments will be back in our industry. Thank you very much.

Senator **Domenici**. Thank you. I wanted to just share with you all something about an import situation with Japan that when our distinguished visitor was talking about an issue being political or scientific, you know, Japan has made it very tough on Americans to sell beef in Japan. I think we now have a multiyear approach where eventually, we're going to get into the market. And they are very big purchasers of our agricultural products—the largest in the world. I had their agriculture minister in my office and, you know, we were talking about beef prices, and American beef, you know, is about $24-$26 a pound in Japan when this man came to visit, and he says, well, Senator, you have to understand Japan is an island, and we are fish eaters, and I said, well, if beef was $26 a pound in the United States, we would be fish eaters, too. [Laughter.]

I think the secretary understands what the purpose of the point, but I just wanted to say I hope from the standpoint of the press, the secretary has been extremely frank and consistent with his government's policies. I assume almost everything he has told us was part of the President's pronouncement over the weekend and he's telling us about it.

I'm not going to take a lot of his time to ask the details of periods of implementation of all these tariff reductions and targeting and other things. I don't know how long it's going to take. Most of the time, you told us a time frame, but obviously, it's going to take a while to implement the program you've spoken of and I just wanted to thank you very much. I gather that it would be fair to say that over the long run, this policy is motivated by moving—by trying to increase production in Mexico dramatically in the foodstuffs of all types, and secondly, to make it competitive in the world market, thus getting the Mexican people more food, better food and at the same prices their North American friends are paying, and you have a few subsidies to get you through it. Where you move rapidly, you will have the poverty part of the population being given a subsidy for the purchase of the product instead of subsidizing the producer to keep the product low.

Mr. **Enriquez**. That's correct.

Senator **Domenici**. Mrs. Jo Ann Smith is the Assistant Secretary for Marketing and Inspection Services, United States Department of Agriculture. Let me just say to her before she testifies, when we had the problems with Mexico alluded to by the Sub-secretary of Agriculture, some of them had to do with holding up shipments between the two countries—noncertification of some ports of entry—she was in charge of trying to help us resolve the problem. I want to thank her personally. We met one time in my office with two or three Senators, and you had a very tough problem. We appreciated your effort. I think part of the solution did come from a change in attitude, in that communication lines were opened rather rapidly with their Mexican counterparts. You were right; we did start complaining rather quickly. I guess we all understand now that we ought to all complain quickly; your people should too. And we ought to respond quickly.

With that, Mrs. Smith, we look forward to hearing your observations on the subjects today.

STATEMENT OF JO ANN SMITH, ASSISTANT SECRETARY, MARKETING AND INSPECTION SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Ms. SMITH. Thank you, Senator.

Mr. Chairman, I am pleased to be here today to discuss the agriculture trade between the United States and our friends and neighbors in Mexico.

The Department of Agriculture is involved in a number of activities designed to, of course, facilitate trade with other countries, including Mexico, and many of these fall within my jurisdiction and within the area of marketing and inspection. Those which are included would include animal and plant health inspection which is APHIS, the Food Safety and Inspection Service, Agricultural Marketing Service, Federal Grain and Office of Transportation.

The activities conducted by these agencies help to facilitate trade, ensure a safe and wholesome food supply and protect American agriculture from the possible entry of pests and disease that could affect domestic production. We at USDA support enhancement of inspection and certifying certain agricultural products being exported from the United States to ensure that the health and marketing requirements of the importing country are met.

Through the years, we have developed a very special working relationship with Mexico. It has helped both countries, and it certainly has helped agriculture. Perhaps the strongest evidence of our close ties have been alluded to here today, but certainly are in the areas of eradication of pests and diseases such as foot-and-mouth disease, screwworm and the Mediterranean fruit fly. These efforts clearly demonstrate the understanding in both countries that there is a bond between our countries and a link between agricultural health and economic health.

All countries impose, of course, some sort of quarantine requirement on agricultural products coming from another nation. These requirements, of course, include inspection, testing, treatment, certification, quarantines or maybe some other restriction. We work very carefully and very closely with our counterparts in Mexico to share information and knowledge about pests and diseases in order that it can be based on science for the health and for any quarantine requirements.

We realize that the risk is to both nations and to the agricultural segment. We do not want to impose any kind of or unnecessary burden on producers, importers or exporters nor the consumers.

One example of the activity aimed at agricultural health protection is the surveillance along the border of cattle fever ticks which Secretary Enriquez alluded to. At this time, of course, all cattle coming in from Mexico from infested areas are required to be dipped 7 to 12 days before and again, of course, when they come across. He alluded, also, to the protocol upon cholera taking the situation in Mexico as it currently exists. As you are well aware, we face situations within that country of the outbreak of hog cholera back into the United States. When this happens, or if it were, we need to, of course, identify the problem.

For example, in March of 1989, Mexico became concerned that slaughter swine exported from the United States were being illegally diverted to breeding operations. Some areas of Mexico were experiencing serious outbreaks of hog cholera, and Mexican officials were concerned that the hogs that were diverted might escalate the spread of the disease because the U.S. hogs, of course, have no natural immunity to hog cholera since it was eradicated here in 1978.

Because of their concerns, Mexico required that all hogs that were going for slaughter be vaccinated. This, of course, was not consistent with our policy. The vaccination, of course, created an embargo, and I am pleased to say that we have worked through that situation and that they were, again, allowed to go into Mexico beginning October 1.

In June of 1989, the Mexican officials also raised additional concerns about exports and proposed new health protocols—we have heard some of those today—for breeding and slaughter cattle, swine, sheep, goats and horses. We reacted immediately and contacted them on each of the proposals, and successfully we have resolved those areas of concern.

We are still working with the Mexican officials as it relates to facilities along the border. We have provided a list of available pens all across the border, and the Mexican officials currently have inspected all of those facilities. We are pleased to report that we have received official notification from Mexico of the number of the pens they inspected including, of course, Columbus. In some locations where there are multiple sites, the Mexican officials have asked us to choose one location because they cannot provide adequate staffing at each site.

We at USDA are currently in the process of developing criteria to make those choices. Some of the facilities, including Columbus, will require modifications before permanent approval can be granted. We have been given until April 30th, 1990 to meet the Mexican requirements.

We are very pleased with the outcome of these negotiations and especially appreciate the close working relationship that made them possible.

Although the livestock health issues have dominated agricultural trade with Mexico in recent years, we are working with them with other commodities. APHIS now has 205 employees along the ports of entry and 11 stations along the border.

Recognizing that the volume changes with the season and with the commodities, we are committed to staffing those facilities in an expansion manner when the rate of increase of the commodity comes up to a level for additional staffing.

APHIS officers clear agricultural commodities, mostly fruits and vegetables, of course, entering the U.S. from Mexico. This is vital. Mexico is the largest foreign supplier of fresh fruits and vegetables during the winter months. We will work hard to ensure that the quarantine requirements are not unduly cumbersome, but are adequate to protect the U.S. We have worked with Mexico to establish zones that are recognized as free zones from fruit fly. This protects, of course, the American agricultural interests while opening up to free trade. We will work together to do that with the livestock industry. Here again, I would like to state just how important it has been to have a very close working relationship and the ability to pick up the phone and call and his ability to speak very good English.

An ongoing issue on the plant protection side is the presence of the disease karnal bunt in the Mexican wheat industry. Those spores, of course, can be easily transported back into the U.S. We are checking those rail cars as they enter and refuse them if they are contaminated.

Mexico regained eligibility to export meat and meat products to the U.S. in December of 1988. The Mexican Government has certified several plants as eligible to export to the U.S. Currently, there are four listed. We are working with the Mexican government to ensure that any problems that might arise in these plants could be quickly identified. Those plants have to have "equal to" performance as the U.S. plants as stated by law.

I have spoken several times of the importance of cooperation. Over the past 8 years, an area of significance in U.S. bilateral cooperation has been the border coordination in U.S. and Mexico agricultural trade. Coordination of agricultural trade, of course, was begun in 1970 when the volume of agricultural trade between the two countries increased significantly, particularly shipments of grain to Mexico by rail. Because of the problems, CONASUPO and the U.S. agreed to establish a bilateral transportation group which meets twice a year to go over any problems. I can say to you that they have identified these problems, and they are working on them and staying very current. We appreciate that relationship very much.

During the summer of 1988, Mexico began to export large amounts of fat cattle cattle for slaughter, as well as cattle to be fed. We have worked with them to make sure that the border will stay open. We appreciate Secretary Enriquez' personal commitment for opening those border stations as the cattle market demands at this time for steers and heifers to be fed here.

Certainly, we are aware of the transportation issue. The trucking industry realizes there is a tremendous stress on that industry from Mexico to bring products into the U.S.

On January 1, 1991, the Mexican truckers crossing into the U.S. will be required to be in compliance with the Federal Motor Carrier Safety Regulation or risk not being able to cross into the United States. The new rules were promulgated by the U.S. Department of Transportation, and it impacts, particularly, the fruit and vegetable industry located in the valley. We know that there will be areas where we will have to work in order to make sure that this is carried forward, and we will continue to monitor any impact it will have on agricultural trade.

The important recent development in Mexico/U.S. trade has been the rapid expansion, of the U.S. plants. These plants which produce manufactured goods from raw products, is second in generating of revenue of foreign exchange. It has been alluded to previously today of the number of jobs provided, and we endorse this tremendously.

The U.S. officials in the Department of Agriculture and the Secretariat of Agriculture and Water Resources for Mexico are preparing a joint statement expressing the intent to improve cooperation with respect to production, trade and development in agriculture.

It is the intent to have five technical working groups in fundamental areas for both countries. These groups will be co-chaired by representatives of each country and will endeavor to create, implement and evaluate programs designed to ease the flow of agriculture and commerce between each country.

These areas include animal and plant health, marketing and inspection, economic research and statistics, scientific research and development and the private sector. Those committees are being established, and several of them have already been meeting.

We are confident, based on the long-term working relationship that we have developed with Mexico, that any problems that arise affecting agricultural trade between our two nations can be dealt with promptly. We look forward to seeing this relationship continue to grow and benefit producers, importers, exporters and consumers of both countries.

I commend you for this hearing. I commend you for the fact that you have responded to your people, to our people and to the issue of trade between these countries. We stand ready to assist in any way we can at any time.

And again, I would like for it to be on the record, we appreciate the relationship that we have been able to establish and the communication because, obviously, the problems can be minimized at all times if there is open communication between the two countries.

We will be happy to respond to any questions that you might have.

Senator DOMENICI. Thank you very much.

[The prepared statement of Mrs. Smith follows:]

Testimony of Jo Ann Smith
Assistant Secretary, Marketing and Inspection Services
United States Department of Agriculture
Before the Committee on Budget
Las Cruces, New Mexico

January 10, 1990

Mr. Chairman and members of the Committee, I'm very pleased to be here today to discuss agricultural trade between the United States and our friends and neighbors in Mexico. The Department of Agriculture (USDA) is involved in a number of activities designed to facilitate trade with other countries, including Mexico, and many of these activities fall within the jurisdiction of the marketing and inspection agencies at USDA, including the Animal and Plant Health Inspection Service (APHIS), the Food Safety Inspection Service (FSIS), the Agricultural Marketing Service (AMS), the Federal Grain Inspection Service (FGIS), and the Office of Transportation (OT).

The activities conducted by these and other agencies help to facilitate trade, ensure a safe and wholesome food supply, and protect American agriculture from the possible entry of pests and diseases that could affect domestic production. We at USDA support export enhancement by inspecting and certifying certain agricultural products being exported from the United States to ensure that the health and marketing requirements of the importing country are met.

THROUGH THE YEARS, WE HAVE DEVELOPED A SPECIAL WORKING RELATIONSHIP WITH MEXICO THAT HAS HELPED BOTH COUNTRIES PROTECT AGRICULTURAL PRODUCTION WHILE FACILITATING VITAL TRADE BETWEEN THE TWO NATIONS. PERHAPS THE STRONGEST EVIDENCE OF OUR CLOSE TIES WITH MEXICO CAN BE SEEN IN THE COOPERATIVE ERADICATION PROGRAMS WE HAVE CARRIED OUT--PROGRAMS TO ERADICATE PESTS AND DISEASES SUCH AS FOOT-AND-MOUTH DISEASE, SCREWWORM, AND MEDITERRANEAN FRUIT FLY. THESE EFFORTS DEMONSTRATE THE CLEAR UNDERSTANDING IN BOTH COUNTRIES THAT THERE IS A BOND BETWEEN OUR COUNTRIES AND A LINK BETWEEN AGRICULTURAL HEALTH AND ECONOMIC HEALTH.

QUARANTINE REQUIREMENTS

ALL COUNTRIES IMPOSE SOME HEALTH OR QUARANTINE REQUIREMENTS ON THE AGRICULTURAL PRODUCTS OF OTHER COUNTRIES TO PROTECT AGAINST THE ENTRY OF UNWANTED PESTS AND DISEASES. THESE REQUIREMENTS CAN INCLUDE INSPECTION, TESTING, TREATMENT, CERTIFICATION, QUARANTINES, OR OTHER RESTRICTIONS. WE WORK VERY CLOSELY WITH OUR COUNTERPARTS IN MEXICO TO SHARE INFORMATION ABOUT PESTS AND DISEASES IN ORDER TO PROVIDE A SCIENTIFIC BASIS FOR HEALTH OR QUARANTINE REQUIREMENTS. WHERE WE RECOGNIZE A POTENTIAL RISK TO THE HEALTH OF AGRICULTURE IN EITHER COUNTRY, WE WORK TOGETHER WITH AN OBJECTIVE THAT REQUIREMENTS IMPOSED BY EACH OF US ARE ADEQUATE TO PROTECT AGRICULTURE, WHILE NOT IMPOSING AN UNDUE BURDEN ON PRODUCERS, IMPORTERS, AND EXPORTERS. OUR ANIMAL AND PLANT HEALTH AUTHORITIES ARE COMMITTED TO THE IDEA THAT ANY RESTRICTIONS SHOULD BE PROTECTIVE OF HEALTH, NOT

IMPEDIMENTS TO TRADE.

CATTLE FEVER TICKS

ONE EXAMPLE OF AN ACTIVITY AIMED AT AGRICULTURAL HEALTH PROTECTION IS THE SURVEILLANCE MAINTAINED ALONG THE BORDER FOR CATTLE FEVER TICKS. WHILE SOME AREAS OF MEXICO ARE FREE OF CATTLE FEVER TICKS, OTHER AREAS ARE STILL INFESTED; THEREFORE, WE INSPECT ALL CATTLE ENTERING FROM MEXICO. WE ALSO REQUIRE THAT CATTLE ENTERING FROM INFESTED AREAS BE DIPPED IN PESTICIDE 7-12 DAYS BEFORE BEING PRESENTED AT THE BORDER WHERE THEY ARE INSPECTED AND, IF FOUND FREE OF TICKS, RECEIVE A PRECAUTIONARY DIP BEFORE CROSSING THE BORDER. FROM TICK-FREE AREAS, WE REQUIRE ONLY ONE PRE-CROSSING PRECAUTIONARY DIP AND AN EXAMINATION AT THE BORDER.

HOG CHOLERA AND EXPORT PROTOCOLS

FROM TIME TO TIME, WE FACE NEW SITUATIONS AFFECTING THE ENTRY STATUS OF AGRICULTURAL PRODUCTS SUCH AS AN OUTBREAK OF A NEW PEST OR DISEASE IN A PREVIOUSLY FREE AREA. WHEN THIS HAPPENS, WE MUST REDOUBLE OUR EFFORTS TO COMMUNICATE AND SHARE AS MUCH INFORMATION AS POSSIBLE SO REASONED DECISIONS CAN BE MADE. FOR EXAMPLE, IN MARCH 1989, MEXICO BECAME CONCERNED THAT SLAUGHTER SWINE EXPORTED FROM THE UNITED STATES WERE BEING ILLEGALLY DIVERTED TO BREEDING OPERATIONS. SOME AREAS OF MEXICO WERE EXPERIENCING SERIOUS NEW OUTBREAKS OF HOG CHOLERA, AND MEXICAN OFFICIALS WERE CONCERNED THAT DIVERTED AMERICAN HOGS MIGHT BE

ESCALATING THE SPREAD OF THE DISEASE BECAUSE U.S. HOGS HAVE NO NATURAL IMMUNITY TO HOG CHOLERA. HOG CHOLERA WAS ERADICATED FROM THE UNITED STATES IN 1978.

BECAUSE OF THEIR CONCERNS, MEXICO REQUIRED THAT ALL HOGS IMPORTED FOR SLAUGHTER BE VACCINATED FOR HOG CHOLERA. THIS, HOWEVER, WAS INCONSISTENT WITH OUR POLICY PROHIBITING THE USE OF HOG CHOLERA VACCINE BECAUSE THE UNITED STATES IS HOG CHOLERA FREE. THE VACCINATION REQUIREMENT EFFECTIVELY PLACED AN EMBARGO ON THE EXPORT OF U.S. HOGS. DURING A SERIES OF MEETINGS AND COMMUNICATIONS WITH MEXICAN OFFICIALS, WE RESOLVED THE CONCERNS, AND SWINE WERE AGAIN PERMITTED ENTRY INTO MEXICO FOR SLAUGHTER BEGINNING OCTOBER 1, 1989.

IN JUNE 1989, MEXICAN OFFICIALS RAISED ADDITIONAL CONCERNS ABOUT OTHER LIVESTOCK EXPORTS AND PROPOSED NEW HEALTH PROTOCOLS FOR BREEDING AND SLAUGHTER CATTLE, SWINE, SHEEP, GOATS, AND HORSES. WE IMMEDIATELY INITIATED NEGOTIATIONS ON EACH OF THE PROPOSALS AND SUCCESSFULLY RESOLVED MOST ISSUES BY LATE SUMMER. THE ONLY REMAINING ISSUE WAS THE APPROVAL OF ADEQUATE PENS FOR HOLDING U.S. LIVESTOCK FOR INSPECTION BY MEXICAN OFFICIALS BEFORE EXPORT. WE PROVIDED A LIST OF AVAILABLE PENS ALONG THE BORDER, AND THE MEXICAN OFFICIALS HAVE INSPECTED THOSE PENS FOR COMPLIANCE WITH THEIR REQUIREMENTS. WE ARE PLEASED TO REPORT THAT WE RECEIVED OFFICIAL NOTIFICATION LAST WEEK OF MEXICO'S TEMPORARY APPROVAL OF A NUMBER OF LIVESTOCK EXPORT PENS, INCLUDING THE COLUMBUS STOCKYARDS IN COLUMBUS, NEW MEXICO.

In some locations, multiple sites have been approved, but Mexican officials have asked that we choose only one in each location because they can provide adequate staffing at only one site in each location. We are in the process of developing criteria to make those choices. Several of the facilities, including Columbus, will require some modifications before permanent approval can be granted, and we have been given until April 30, 1990, to meet the Mexican requirements. We are very pleased with the outcome of these negotiations and appreciate the close working relationship that made them possible.

Commodity Inspections

Although livestock health issues have dominated agricultural trade with Mexico in recent months, health and quarantine requirements also affect the movement of other agricultural commodities. To administer these requirements, APHIS has 205 agricultural quarantine inspection personnel stationed at 11 ports of entry along the Mexican border, including Columbus, New Mexico. Recognizing that trade patterns and volume change, APHIS is committed to provide adequate staffing where import expansion warrants the use of limited resources.

APHIS officers clear agricultural commodities, mostly fruits and vegetables, entering the United States from Mexico. This is a vital activity since Mexico is the largest foreign supplier of fresh fruits and vegetables during the winter months. As with the importation of livestock, we work very

HARD TO ENSURE THAT OUR QUARANTINE REQUIREMENTS ARE NOT UNDULY CUMBERSOME BUT ARE ADEQUATE TO PROTECT U.S. PRODUCTION AREAS. FOR EXAMPLE, WE HAVE WORKED WITH MEXICO TO ESTABLISH ZONES THAT ARE RECOGNIZED AS FREE OF FRUIT FLIES. THIS PROTECTS AMERICAN AGRICULTURE WHILE OPENING TRADE. FOR THE SAME REASONS, THE UNITED STATES AND MEXICO WORKED TOGETHER TO ERADICATE MEDITERRANEAN FRUIT FLY FROM MEXICO, AND WE CONTINUE TO COOPERATE TO PREVENT REINTRODUCTION OF THE PEST INTO MEXICO.

GRAIN AND CEREAL

AN ONGOING ISSUE ON THE PLANT PROTECTION SIDE IS THE PRESENCE OF THE DISEASE KARNAL BUNT IN MEXICAN WHEAT. BECAUSE SPORES OF KARNAL BUNT ARE EASILY CARRIED BY RAIL CARS THAT HAVE TRANSPORTED WHEAT, WE HAVE WORKED FOR SEVERAL YEARS WITH MEXICAN OFFICIALS TO ELIMINATE THE RISK OF SPREADING THIS DISEASE THROUGH ENTRY OF CONTAMINATED RAIL CARS. RAIL CARS ARE INSPECTED BY APHIS PERSONNEL ON ENTERING THE UNITED STATES. CONTAMINATED CARS ARE REFUSED ENTRY.

THE POSSIBILITY OF MYCOTOXINS BEING PRESENT IN GRAIN EXPORTED FROM THE UNITED STATES HAS CAUSED MEXICAN OFFICIALS SOME CONCERN. FOR EXAMPLE, MEXICO REQUIRES ALL SORGHUM SHIPMENTS ENTERING MEXICO TO BE TESTED AND CERTIFIED FOR AFLATOXIN, AND THEY ARE CONSIDERING REQUIRING OFFICIAL AFLATOXIN TESTING ON IMPORTED RICE, BEANS, AND OTHER COMMODITIES. THE USDA'S FEDERAL GRAIN INSPECTION SERVICE (FGIS) IS WORKING WITH HEALTH AUTHORITIES IN MEXICO TO EVALUATE THE NEED FOR SUCH

REQUIREMENTS, WHICH WE BELIEVE MAY BE UNNECESSARY. SIMILARLY, IN EARLY 1989 THE MEXICAN AGRICULTURE MINISTRY'S PURCHASING AGENCY, CONASUPO, AND SOME END USERS OF SORGHUM IN MEXICO BELIEVED THE MYCOTOXIN ZEARALENONE WAS CAUSING CHICKENS TO DIE AND PREGNANT SWINE TO ABORT. OFFICIALS FROM FGIS WORKED WITH CONASUPO AND DETERMINED THAT THE SORGHUM DID NOT CONTAIN HARMFUL LEVELS OF ZEARALENONE.

CORN QUALITY IS ANOTHER CONCERN THAT HAS BEEN RAISED BY MEXICAN OFFICIALS. THE FGIS INTERNATIONAL MONITORING STAFF IS WORKING WITH CONASUPO TO DEVELOP A STUDY TO EVALUATE CHANGES IN CORN QUALITY BETWEEN ORIGIN AND DESTINATION PORTS.

MEAT INSPECTION

WHILE MANY AGRICULTURAL PRODUCTS ARE INSPECTED TO PROTECT AGRICULTURAL HEALTH, WE INSPECT MEAT AND MEAT PRODUCTS TO PROTECT THE HEALTH OF CONSUMERS. MEXICO REGAINED ELIGIBILITY TO EXPORT MEAT AND MEAT PRODUCTS TO THE UNITED STATES ON DECEMBER 29, 1988, AFTER A HIATUS OF 4 YEARS. THE MEXICAN GOVERNMENT HAS CERTIFIED SEVERAL PLANTS AS ELIGIBLE TO EXPORT TO THE UNITED STATES; CURRENTLY, FOUR ARE OFFICIALLY LISTED. WE ARE WORKING WITH MEXICO TO ENSURE THAT ANY PROBLEMS THAT ARISE IN THE PLANTS ARE CORRECTED SO THEY CAN CONTINUE TO DEMONSTRATE "EQUAL TO" PERFORMANCE, AND TO ENSURE THAT THE APPROPRIATE CONTACT POINTS ARE ESTABLISHED FOR WORKING OUT ANY PROBLEMS THAT AFFECT BOTH THE IMPORTATION AND EXPORTATION OF MEAT AND MEAT PRODUCTS.

Border Coordination/USDA-CONASUPO Plenary Meetings

I have spoken several times of the importance of cooperation in supporting trade. Over the past eight years, an area of significant U.S.-Mexico bilateral cooperation has been that of the border coordination of U.S.-Mexico agricultural trade. Coordination of agricultural trade was begun in the late 1970's when the volume of agricultural trade between the two countries increased significantly, particularly shipments of U.S. grain into Mexico by rail. Because of the logistical problems which resulted from this level of trade, CONASUPO and USDA agreed to establish a bilateral transportation group which would meet once or twice a year to address these problems, and coordinators were appointed in each respective agency to handle periodic logistical problems. USDA's Office of Transportation (OT) coordinates these meetings. In conjunction with the meetings, the U.S. and Mexican governments renew an agreement which reestablishes the bilateral transportation group and the border coordinator function.

The primary forum for coordination, as called for by the bilateral agreement, is a U.S.-Mexico group consisting of representatives of suppliers, purchasers, carriers and government agencies concerned with the facilitation of export transactions and border interchange. The USDA Border Coordinator represented by OT and the CONASUPO Land Imports and Logistics Coordinator jointly arrange and plan this forum, known as the yearly plenary meeting of USDA and CONASUPO. The next

PLENARY MEETINGS ARE SCHEDULED TO BE HELD APRIL 25-27, 1990, IN NEW ORLEANS, LOUISIANA.

COMPLIANCE WITH TRUCK SAFETY REGULATIONS.

BEGINNING JANUARY 1, 1991, MEXICAN TRUCKERS CROSSING INTO THE UNITED STATES WILL BE REQUIRED TO BE IN COMPLIANCE WITH FEDERAL MOTOR CARRIER SAFETY REGULATIONS (FMCSR) OR RISK NOT BEING ABLE TO CROSS INTO THE UNITED STATES. THE NEW REGULATIONS WERE PROMULGATED BY THE U.S. DEPARTMENT OF TRANSPORTATION AFTER NUMEROUS COMPLAINTS FROM THE U.S. TRUCKING INDUSTRY THAT FAILURE TO ENFORCE FEDERAL TRUCK SAFETY LAWS WERE JEOPARDIZING HIGHWAY SAFETY ALONG THE BORDER. THE FRUIT AND VEGETABLE INDUSTRY LOCATED IN THE RIO GRANDE VALLEY OF TEXAS AND DISTRIBUTORS OF MEXICAN PRODUCE LOCATED IN NOGALES, ARIZONA, PROTESTED THE NEW REGULATIONS, SAYING THAT THE INABILITY TO USE MEXICAN TRUCKERS TO BRING PRODUCE ACROSS THE BORDER WOULD SEVERELY HINDER THE TRANSPORTATION CAPACITY AVAILABLE TO PACKING HOUSES ALONG THE BORDER. OT WILL CONTINUE TO MONITOR THIS SITUATION FOR ANY IMPACT ON AGRICULTURAL TRADE.

IMPACT OF MAQUILADORA OPERATIONS ON U.S. GRAIN SHIPMENTS TO MEXICO

AN IMPORTANT RECENT DEVELOPMENT IN U.S.-MEXICO TRADE HAS BEEN THE RAPID EXPANSION OF ASSEMBLY PLANTS, KNOWN AS MAQUILADORA PLANTS, IN MEXICO. THESE PLANTS, WHICH PRODUCE MANUFACTURED GOODS FROM RAW MATERIALS ARE NOW MEXICO'S SECOND LARGEST

GENERATOR OF FOREIGN EXCHANGE. THE MAQUILADORA PLANTS HAVE RESULTED IN THE CREATION OF MORE THAN 300,000 JOBS IN MEXICO AND CONTRIBUTE MORE THAN $ 2 BILLION ANNUALLY IN FOREIGN CURRENCY PAYMENTS WITHIN MEXICO. THEY HAVE ALSO ADDED A DIFFERENT TYPE OF DEMAND FOR TRANSPORTATION SERVICES BETWEEN THE U.S. AND MEXICO IN THAT THEY REPRESENT A NORTHBOUND MOVEMENT OF HIGH-VALUE MANUFACTURED PRODUCTS IN CONTRAST TO THE RAW MATERIALS AND AGRICULTURAL PRODUCTS WHICH HAVE ACCOUNTED FOR A DOMINANT SHARE OF MEXICAN EXPORTS TO THE UNITED STATES IN THE PAST. THIS ADDITIONAL DEMAND FOR RAIL SERVICES FOR HIGH-VALUE, HIGH-REVENUE SHIPMENTS SUCH AS AUTOMOBILES HAS STRESSED THE CAPACITY OF THE U.S.-MEXICO RAIL INFRASTRUCTURE TO ITS LIMITS. OT HAS PARTICIPATED IN NEGOTIATIONS TO ENSURE THE AVAILABILITY OF THE RAILS FOR THE TRANSPORTATION OF AGRICULTURAL COMMODITIES AND WILL CONTINUE TO WORK TO IMPROVE THIS SITUATION.

JOINT TECHNICAL WORKING GROUP ON AGRICULTURE

OFFICIALS OF THE UNITED STATES DEPARTMENT OF AGRICULTURE AND THE SECRETARIAT OF AGRICULTURE AND WATER RESOURCES FOR MEXICO ARE PREPARING A JOINT STATEMENT EXPRESSING THE INTENT TO IMPROVE COOPERATION WITH RESPECT TO PRODUCTION, TRADE, AND DEVELOPMENT IN AGRICULTURE.

IT IS THE INTENTION TO HAVE FIVE TECHNICAL WORKING GROUPS IN FUNDAMENTAL AREAS OF INTEREST TO BOTH COUNTRIES. THESE WORKING GROUPS WILL BE CO-CHAIRED BY REPRESENTATIVES OF EACH COUNTRY AND WILL ENDEAVOR TO CREATE, IMPLEMENT, AND EVALUATE PROGRAMS

DESIGNED TO EASE THE FLOW OF AGRICULTURAL COMMERCE BETWEEN AND WITHIN EACH COUNTRY.

THE OBJECTIVE OF THESE GROUPS WILL BE TO PROMOTE A CLOSER WORKING RELATIONSHIP BETWEEN THE UNITED STATES DEPARTMENT OF AGRICULTURE AND MEXICO'S SECRETARIAT OF AGRICULTURE AND WATER RESOURCES IN SPECIFIC AREAS. THESE AREAS ARE ANIMAL AND PLANT HEALTH, MARKETING AND INSPECTION, ECONOMIC RESEARCH AND STATISTICS, SCIENTIFIC RESEARCH AND DEVELOPMENT, AND PRIVATE SECTOR COOPERATION.

WE ARE CONFIDENT, BASED ON THE LONG-TERM WORKING RELATIONSHIP WE HAVE DEVELOPED WITH MEXICO, THAT ANY PROBLEMS THAT ARISE AFFECTING AGRICULTURAL TRADE BETWEEN OUR TWO NATIONS CAN BE DEALT WITH PROMPTLY. WE LOOK FORWARD TO SEEING THIS RELATIONSHIP CONTINUE TO GROW AND, THUS, BENEFIT PRODUCERS, IMPORTERS, AND EXPORTERS IN BOTH COUNTRIES.

THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO DISCUSS THESE TRADE ISSUES. I WILL BE HAPPY TO RESPOND TO ANY QUESTIONS YOU MAY HAVE.

Senator DOMENICI. Obviously, as Secretary Enriquez explained the fundamental changes in their agriculture policy, you were not privy to watch Mrs. Smith's facial responses. I might gamble and take just a guess that she was quite pleased as she heard explanation of the changes that we hope will occur. Is that a fair statement?

Ms. SMITH. That is a fair statement. I, too, share with you gladness that I am not in charge of implementation.

Senator DOMENICI. Let's set ourselves some time allotments here. If I have this right, we ought to finish this session in about 7 or minutes. Does that sound about fair with you?

Mr. TOBERMAN. More like about 2 hours. [Laughter.]

Senator DOMENICI. Well, let's see, would you like to fly with me to Clovis? [Laughter.]

We have one more panel, and I think we were supposed to finish about 11:30. Is that right? I think we are all right. We are delighted to have you with us, Bob. You have prepared remarks, I am sure, but if anything has come up as you heard testimony today, feel free to share your expertise with us.

STATEMENT OF ROBERT G. TOBERMAN, DIRECTOR, DIVISION OF MARKETING AND DEVELOPMENT, NEW MEXICO DEPARTMENT OF AGRICULTURE, LAS CRUCES, NM

Mr. TOBERMAN. Thank you. Thank you for the opportunity to address——

Senator DOMENICI. You have got to move the mike up there.

Mr. TOBERMAN. Thank you for the opportunity to testify this morning, Mr. Chairman. I will be very brief, and I will also diversify from the geographical context of the hearing and be a little more global, so to speak.

I would like to commend your previous efforts in the TEA-VAPP Program and for assisting us with the budget hearings associated with the TEA-VAPP Program. For other members of the hearing, it is the Target Export Assistance Program of the U.S. Department of Agriculture. New Mexico receives, at the present time, around $500 or $600 thousand a year to assist our companies in export markets overseas. We receive these funds through our Western U.S. Agriculture Trade Association organization in Vancouver, WA, which channels them through the Department of Agriculture throughout Asia and Europe, principally.

The program started back in 1984 with a budget of approximately $20 thousand. So as you see from where we were then to where we are now, we have come quite a long ways.

In recent years, as far as the West is concerned, we have managed around $6 million in Target Export Assistance Funds in two principal categories: Generic industry-wide projects and the company matching fund-programs. Some examples of products which are covered by the generic export development projects for New Mexico and the West would include pecans, wine, chili products and blue corn products, in addition to fresh vegetables, poultry and produce items for U.S. promotion overseas.

The West also has approximately 80 to 90 western American food companies which are funded on a matching program called the

Value Added Products promotion, VAPP. These companies sign an agreement to promote their brand of products in designated export markets. They are, in turn, reimbursed for one half of their eligible expenditures which include such cost for advertising, promotion, development of export materials, in-store demonstrations and certain trade show activities.

The companies and industries in States that participate in these programs have recorded quite a bit of export success stories during the last 2 to 3 years. We have seen an increase in exports on an average of 47 percent over 3 years for each participating company. There are several reasons why I think this program should continue. One of them, I think, you are aware that consumer-oriented high-value products segment in world agriculture is now greater than your bulk agricultural trade. This occurred between 1976 and 1980 and right now is growing a lot faster than other segments of world agricultural trade. Just this last year, it increased by some 7 percent.

The United States, however, lags behind the competition as an exporter of consumer-oriented, high-value products. In 1988, the United States accounted for approximately 35 percent of wool, sheep and bulk agricultural commodities, but less than 8 percent of the world trade of consumer-oriented, high-value products.

We run a substantial trade deficit in consumer-oriented high-value products.

Senator DOMENICI. Give us examples. What are those?

Mr. TOBERMAN. High-value products? Processed foods.

Senator DOMENICI. Right.

Mr. TOBERMAN. This trade balance has deteriorated dramatically since 1981, and in 1988, it was right around $8 billion a year.

On the other hand, the EEC, which is our principal competitor, has increased its market share substantially in consumer-oriented, high-value products since 1981. In 1992, it's going to be, probably, twice as strong in this particular area.

We have to compete in this market. We have to compete in Europe as well as Asia. In both areas that I am speaking about, Federal governments protect their domestic producers with tariffs and nontariff barriers. They also assist exporters and food processors directly through production subsidies and market programs.

If any of you—and I am sure you have, Senator—have been to any of the food shows such as ANUGA, FOODEX or SIAL and just stroll through the aisles, it is quite common for the Dutch/Swiss pavilions to put over a million dollars just in their food displays, which are 100 percent subsidies.

Production of high-value product for export creates more jobs to the value added and income in agriculture for the United States economy.

The programs, which began as the key provisions of the 1980 Farm Bill, I think need to be continued. Export market development is a long-term process, and I commend this program for the reason that it is basically a 3-year program for participants. I like to talk more in terms of market development than exports. Exports, to me, are a one-shot situation. Market development is a 3- to 5-year program. It is a program designed to take a company under its wing or through assistance with matching funds for a 3—

a minimum of 3 years to assist them from market presence to market expansion to market share of the foreign economy with our export products.

Senator DOMENICI. Could you just hold for 1 second. I have a telephone call that I must take. I will be right back.

[Brief recess.]

Senator DOMENICI. Please proceed, Bob.

Mr. TOBERMAN. Essentially, and following up what I just said, I just have some recommendations that would strengthen the program as it exists. Because of its popularity and its flexibility, we have had a tremendous increase in the number of companies which have participated given the amount of companies being able to survey that meaningful level of funding. I would like to see a limit placed on those firms with $100 thousand per project per annum.

Second, I think that the acceptance of participants should be geared to their submission of a marketing plan with a specific market which they intend to enter. This is not the case at the present time. They can just be very generic, and they can develop a marketing plan after funding is accepted.

Three, I would like to see the FAS develop a more standardized evaluation format based on market presence the first year, market expansion the second and market share the third year. It is easy to do. It can be done. But right now, we have a hodgepodge, so to speak, in the value of the criteria. It would also, give FAS an immediate handle on how successful the program would be if the evaluation criteria was standardized.

I don't see any need to change the expenditure categories which are currently allowed which include market research, product development, production, promotional materials, advertising, promotion and merchandising costs.

Finally, I would like to encourage a little more flexibility on foreign participation, and by that, I'm talking about foreign importers, foreign department stores, particularly those in Asia which are gearing up for long term—anywhere from 6 weeks' to 3 months—promotion of U.S. agricultural products. I think they—it would behoove us to let them be eligible for some funding and some type of shared cost activity here because they do a great deal in promoting Western U.S. products overseas.

One more item I think you ought to be aware, when started the program, you could participate in an international trade show for $500 a booth back in 1984. Those costs are now $5 thousand a booth. To my knowledge, there has not been any allocation, so to speak, or increase in that type of activity to encompass those increases in expenditures. Thank you very much.

Senator DOMENICI. Thank you.

[The prepared statement of Mr. Toberman follows:]

HEARING HELD 1/10/90 -- ROBERT G. TOBERMAN

MR. CHAIRMAN:

Thank you for the opportunity to testify regarding the TEA/VAPP program of the U.S. Foreign Agricultural Service. I would especially like to commend your past support for this program which I consider to be extremely successful in terms of export market development enhancement for agileness firms.

As you are aware, the New Mexico Department of Agriculture obtains funds through our regional organization the Western United States Agricultural Trade Association (WUSATA) in Vancouver, Washington, for implementation of these programs. Our initial funding including private sector market buyers in 1984/85 at approximately $27,000 with one company. We now administer around $975,000 for four companies and three organizations.

In recent years, the Western U.S. has benefited from about $6 million of Target Export Assistance (TEA) funds in two categories: Generic (industry-wide) projects, and company matching fund programs. Example of products covered by Generic export development projects in the Western U.S. are pecans, wines, processed Chile, and Mexican food products, along with fresh vegetables, grocery and produce items for U.S. products in store promotions. There are also some 85 Western American companies which participate in the value added products promotion on a matching basis. These companies sign an agreement to promote their branded products in designated export markets. WUSATA in turn agrees to reimburse the firm for one-half of eligible expenditures: advertising, promotion, development of export materials, labels, in store demonstrations, and certain trade show activities.

The companies, industries, and states participating in these TEA programs have recorded many export marketing accomplishments. During 1988 company participants realized an average of 15% increase in export sales from 1987.

There are numerous reasons to continue and expand federal support of U.S. agribusiness export market development for consumer-oriented high value products (HVP).

1. Consumer oriented (HVP) segment of world agricultural trade surpassed the firm bulk products between 1976-1980, and is currently growing much faster than other segments of world agricultural trade (a 6% increase from 1988-1989).

2. The United States lags behind the competition as an exporter of consumer oriented HVP. In 1988 the U.S. accounted for 35% of world trade in bulk agricultural commodities but only 7% of world trade in consumer oriented HVP.

3. The United States runs a substantial trade deficit in consumer oriented high value products. This trade balance has deteriorated dramatically since 1981 and stood at $8 billion in 1988.

4. The European Economic Community has been running a trade surplus in consumer oriented high value products since 1981.

5. The United States must compete with producers and exporters of HVP in Europe and Asia, where federal governments:

    a. Protect domestic producers with tariffs and non-tariff barriers and

    b. Assist exporters through product subsidies and market development programs.

   One only has to visit the large food shows such as SIAL, ANUGA, and FOODEX and see the millions of dollars spent by the EEC and Asian Countries on their promotional activities.

6. Production of HVP for export creates more jobs and income (through value added activities) in agriculture and throughout the U.S. economy.

7. Successful programs are market oriented which means on a continuous basis of at least three years. This program is not a "one shot" activity but is oriented to assure continued market development activity stressing:

    a. Market presence during the first year.

    b. Market expansion during the second year.

    c Market share during the third year.

   Market conditions may determine the precise time frame, but the end goal is market share of a foreign market.

   I would recommend the following in order to strengthen the program.

1. Limit applicants to $100,000 in both TEA and VAPP categories, but not less than $25,000. The success of the program has attracted many more firms some of which quite frankly do not belong in the program. By capping the applicants at $100,000, it would allow more to participate. Anything less than $25,000 is unrealistic in terms of what can be accomplished in overseas market development.

2. The applicants should be accompanied by a marketing plan which would force the participant to focus on giving some thought to market development strategy before acceptance. All applicant should address:

    a. guaranteed supply

    b. quality control

    c. market price

    d. product servicing

    e. product promotion

This would discourage less capable firms from the program and strengthen the overall quality of applicant.

3. Standardized Evaluation Criteria by utilizing three variables:

    Phase I - Market Presence

    Phase II - Market Expansion

    Phase III - Market Share

4. Require a percentage of the fund to be reimbursed to FAS for withdrawal from the program.

5. Put additional funds into Trade Show Activity. Even at current FAS participation, trade show booths cost are exceeding $5,000.

6. Allow for more liberal guidelines for allocating funds to foreign procurers, i.e. Asian department stores which feature U.S. food products.

7. The unfair trade practice requirement is really a joke. Other countries have much more extensive programs and are categorized under "foreign market development incentives". Call the program what it really is and don't worry about the GATT. There is plenty of documentation of similar programs in almost any country which exports agricultural products. An alternate approach would be to justify any product eligible if a tariff or duty exists for the product.

ADM HEAR-RGT RFTD A1

Senator DOMENICI. I just wanted to make a couple of comments. I am a supporter of the program, but I want you to know, and for the record to reflect, that I supported, such a targeted program, where we have evidence that we've been treated unfairly. But I want to make just two observations. It is interesting that we just heard the Deputy Secretary of Agriculture from Mexico speak of moving toward a market-oriented agriculture economy, and I just wondered whether this kind of TEA would fit their program? Secondly, the GATT, negotiations, as you know, are underway, and I wonder if it is not a fair statement that TEA might not meet the test.

Mr. TOBERMAN. Mexico has a similar program such as this. The closest would be components of the Pulmax (phonetic) Program. There are other trusts that address this, also. I do not think that this would be an issue in the GATT, given the intensity of similar programs throughout Western Europe, Australia and even in countries of Asia.

Senator DOMENICI. Mr. Secretary, do you concur?

Mr. ENRIQUEZ. That is correct. I think Japan has extraordinary welcome in market which helps make the Bank of Japan willing to furnish monies with very, very low interest rate. I sometimes worry that sometimes we're the only [inaudible].

Senator DOMENICI. Well, I thank you very much. You know, we are going to have a new farm bill, and I guarantee you this program is going to be right out there in front and center. We will take the exact recommendations and get them to some people and have them analyzed. You have been working with it. If we are going to keep it, we ought to make it as—not only as effective—but we ought to also recognize where it is not quite as fair.

Mrs. Smith, did you have anything further to add? I want to thank all three of you for being here, but I particularly want to thank our friend from Mexico. He came a long way. It is not as easy for him to get here as it is for many of us. I would like very much—it's not a normal thing—but I would like very much for us to all give him a round of applause. [Applause.]

Senator DOMENICI. Jo Ann, might I suggest that in passing, without any comment on your part, I notice you said it is good that when you all talked, he understands English. It might be interesting for the Department of Agriculture to try to have more people that spoke Spanish. I do not know that we can always expect our counterparts to speak English. Maybe they ought to expect some of us to speak Spanish in the Department.

Ms. SMITH. You knew that you could not get away with me not saying something. I would like to say that our new person at APHIS, who is in charge of international affairs, Dr. Art Steerman, speaks very fluent Spanish, and it is a tremendous help.

Senator DOMENICI. Is he starting an idea of maybe some voluntary courses for you all?

Ms. SMITH. Me? [Laughter.]

Senator DOMENICI. I did not mean you, personally. It was in a very generic sense. Thank you all very much.

Our next panel will be Mr. Phil Harvey, Harvey Herefords, New Mexico Cattle Growers Association from Las Cruces, Mr. Steve Lewis, Lewis Livestock, New Mexico Wool Growers from Artesia, and Mr. Charles Dickerson of Dickerson International Auctioneers and New Mexico Farm and Livestock Bureau from here in Las Cruces.

Before we get on with this, Steve, I would just go on to tell you that we are very, very pleased that down in your part of New Mexico in addition to agriculture and oil and gas, you all have a new, mighty fine industry in the law enforcement training center. I assume you participated in some of the business meetings, and you know what is going on. I was pleased to read, recently, that they already have 47 training courses planned for our new facility for these coming years. You all are going to be very proud of that, I am sure.

Mr. **Lewis**. Yes, sir, and we really appreciate all your help getting that training center down there.

Senator **Domenici**. That is great. It is good to have it.

Let's start with Phil. I think everybody here from New Mexico knows Phil. For those that don't, he comes from a long family that has been involved in cattle business in New Mexico. Speaking just as one who has observed, I think your family ought to be awful proud of the growth that has occurred in terms of your activities. I am delighted to have you here.

STATEMENT OF PHIL HARVEY, VICE PRESIDENT, HARVEY HEREFORDS, LAS CRUCES, NM; NEW MEXICO CATTLE GROWERS' ASSOCIATION

Mr. **Harvey**. Thank you very much, Senator. It is an honor to be here, and I appreciate the opportunity to testify here and represent New Mexico Cattle Growers and the cattle producers in the State of New Mexico.

First of all, as you did say, I do have a ranching background. Right now we are pretty heavily involved in registered Hereford cattle and sell quite a few cattle in Mexico, so we do have some experience in this. I have applied quite a bit of that to the statement that I will make today.

To start out, it kind of recaps some of what some people have said today but Mexico is a good market, and it is continuing its growth. It is a "natural" for us in New Mexico due to its proximity and similarity of rainfall and topography in the adjacent States. For the past 10 years, the Mexican cattle herd size has been drastically reduced. Mexico is looking to the United States, as well as other areas, to locate breeding stock for their rebuilding. It appears that we are seeing renewed interest by the Mexican government in helping the producers of Mexico with this rebuilding, although the Mexican government spending on rural development has been in strong decline over a 10-year period. There are signs that there may be a beginning of a reversal of this trend, as lending to the agriculture sector shows indications of being increased. Funds are being made available to Mexico by agencies of the U.N. for agricultural development. Also, institutions such as Banco Rural are showing strong interest in bringing U.S. cattle into Mexico. This all seems to indicate that Mexico is going to be a very significant market for our cattle.

The New Mexico Department of Agriculture has assisted New Mexico cattle breeders for a number of years in marketing cattle in Mexico, and the number of beef breeding cattle sold to Mexico from New Mexico has increased by over 400 percent in the last 4 years. The year 1990, at this early observation, appears to be well on its way to showing another substantial increase in the number of cattle sold from our State to Mexico. I think, in talking to Raul Tellez who is a marketing specialist with the Department, we already have something like 32 head of bulls and 40 breeding females down there by now, or on the way.

There have been some significant changes made by Mexico in the past year in the health requirements that are being imposed on U.S. breeding cattle prior to entering Mexico. These changes include expensive testing for Vibriosis and unnecessary requirements that females be virgin cattle served only by artificial insemination and that bulls be virgin cattle or under 12 months of age in order to avoid the Vibriosis test. This testing is both time consuming and expensive, and the alternative virgin requirements are ridiculously stringent. When added to the other health requirements, they create a poor climate for Americans to export cattle to Mexico. So this is one point that we would really like to take a look at.

Likewise, there have been other requirements such as obtaining visas for the cattle to be shipped. The details and procedures on these visas are often changed or made unnecessarily difficult so as to cause greater expense and significant loss of time in exporting cattle. Most recently, most New Mexico exporters of cattle in 1989 were forced to obtain cattle visas from the Mexican Consulate in Albuquerque. The requirement was made by the Mexicans that no more than five animals could be placed on any one health certificate to receive a visa, thus causing the veterinarians and breeders to fill out numerous extra forms and pay many times the normal amount for the visas whenever they had a shipment that was over five animals. In other words, a shipment of 20 bulls that could easily be written on one or two sheets of paper would require four sheets of paper, and the bull visa fees would be paid for each sheet. While this was a requirement at Albuquerque at the Mexican Consulate, my own experience at the El Paso office was totally different. I went to El Paso to obtain the Mexican visas for a shipment of 14 bulls in March of 1989 and had the bulls listed on three different sheets because I was prepared for this five-animal-to-the-sheet rule that I had heard about from Albuquerque. To my surprise, the Mexican official told me that I should have placed all 14 bulls on one sheet to avoid paying the three visas. To my knowledge, this situation changes very frequently based on the feeling of the Consulate on any given day. So this is something that kind of keeps people off balance in New Mexico. I know I will continue to work with the Consulate in El Paso, but most breeders around the state mail in their papers to Albuquerque. It is kind of a tough situation, and it is something that we need to get some consistency in what they're requiring.

Another recently instigated stumbling block to sending cattle to Mexico is the requirement by the Mexican government that the importer of cattle into Mexico must apply for a special permit—or an import permit—in Mexico City specifying number, type and ages of cattle to be brought in. If a Mexican cattle buyer visits the United States and finds the cattle he wants to buy, obtaining his permit can frequently add 30 days or more to an already cumbersome system. Even buyers that already have the permits prior to selecting their cattle are confronted with being limited to buying only the number and type of cattle specified on the permit, and this creates a barrier to spontaneous purchases. In other words, if a man comes up here and he intends to buy 10 yearling bulls from me and he sees a 5-year-old herd bull that he would like to buy, if that was not specified on his import permit, then we have got to wait another 30 days or so until he can get the permit. I think that is something that is being newly instigated, and we would like to see it go back to the system where a man can come over here and select cattle and pick them out and we can test them and in 2 weeks, they are gone. We would like to see it go that way.

It is the feeling of the New Mexico Cattle Growers Association that these requirements imposed by Mexico greatly impede the sale of breeding cattle to Mexico, and any help we could receive from the U.S. Government to improve this situation would be greatly appreciated. It is also our feeling that free trade between Mexico and the U.S. with regard to livestock is likely the best policy. While there are some U.S. cattlemen who oppose the importation of Mexican feeder cattle into this country, it is difficult to imagine that we could expect to continue to enjoy the benefits of exportation of breeding cattle to Mexico if we do not allow the importation of their feeder cattle. Not only would an embargo on feeder cattle likely cause further Mexican government restrictions on the movement of breeding cattle to Mexico, but, also, the Mexican ranchers seeking a market for their steers would not have the benefit of obtaining U.S. dollars for their product.

Obviously these ranchers were purchasing breeding cattle with the money they received for their feeder cattle, usually without ever taking their money back to Mexico. Most of these people have bank accounts here in the United States mainly for capital preservation in the past. I think this situation is changing, fortunately, from the remarks we heard today.

Thus, the New Mexico Cattle Growers' Association would seek to maintain and improve the trade relations that New Mexican cattlemen have with Mexico. This trade is beneficial to ranchers on both sides of the border, and all efforts should be made to make this trade as efficient and easy as possible.

One way that the Senate Budget Committee might enhance the export of U.S. breeding cattle to Mexico would be to apply a portion of the funding earmarked for the promotion and marketing of other agricultural products such as pecans and other things for the marketing of livestock. I think Bob Toberman was talking about this. We have discussed this many times, and it might be interesting to try to work something out this way. There are currently funds available for the enhancement of markets for many agricultural products in areas such as Thailand, Hong Kong, Japan, and other places, but none of these funds are used to help Americans take advantage of the livestock marketing opportunities in Mexico. I might mention that the Pacific Rim is opening up as a pretty good area for livestock marketing. We had a group of people from

Thailand here in September that are very interested in buying some cattle. I think they wanted some Brangus cattle and were possibly interested in some semen.

So it is getting good there, and I think the opening up of Eastern Europe and the freedom we are seeing there could open up tremendous marketing opportunities. We can offer things that Europe cannot offer to them.

Senator DOMENICI. Let me, first, thank you for the succinct nature of your statement. You precisely addressed the kinds of things we want to know. I, frankly, would like very much that on issues that you raised about inconsistency, that you get us that in writing. I am not disputing you, but, frankly, I believe that there are just some very, very big changes in Mexico's handling of these events. I would be very, very surprised if it was official policy of Mexico to have five per permit, as you claim is handled out of Albuquerque, and not the case in El Paso. I do not think, from the people I have met, that the government is doing that. It might have seen something that already occurred and is no longer occurring, but let's ask. It would be very nice if this record gets filed—and I think if it is not right, we would like to fix it and put it in there. So if you'll get us that, first we will get it to Mrs. Smith. Will you ask the Mexican government on that for us? And I am sure you will answer that for us.

Mr. HARVEY. I have a little bit further to go here, if I might.

Senator DOMENICI. Please, of course.

Mr. HARVEY. The Marketing and Development Division of New Mexico Department of Agriculture have been highly active in promoting the sale of New Mexico products worldwide, and with the help of Federal funding in most areas except for the marketing of livestock, as I was saying. Nonetheless, the NMDA has been extremely active and successful in the promotion of New Mexico breeding cattle to Mexico. Their vigorous activity is well documented by the Department and many trips to cattle events and functions in Mexico have been made, most often with New Mexico cattle breeders accompanying the New Mexico Department of Agriculture specialists. The results have been dramatic, and it is evident that we are merely scratching the surface on this potential Mexican market for breeding cattle. This past year, the New Mexico Department of Agriculture was also given funding by a group of New Mexico breeders to start a "vehicle purchase account" for the purpose of acquiring a Suburban or this type of vehicle to escort potential Mexican cattle buyers around the State and show them cattle. We feel this is going to really enhance our program. With just a little help from Congress, our program in New Mexico could escalate to incredible proportions because we are right here where we can get quite a bit done.

Another point that has been of great concern to New Mexico cattlemen is the possibility of the closure of the port of entry at Columbus-Palomas. We feel quite strongly that this port needs to stay open and, likewise, that we need a full-time veterinarian on staff there. This would be a fantastic thing. This port, however small, is really the gateway to western Chihuahua, and the breeders from around New Mexico that need to go to western Chihuahua or to eastern Sonora, either one, would much rather go through this port and avoid the hassle of El Paso and coming clear back to the west because the transportation system going east/west through Chihuahua is not too good. This would be a wonderful thing if we could keep this port operating.

The New Mexico Cattle Growers' Association and cattle breeders of the State of New Mexico seek to increase the exportation of cattle from New Mexico to Mexico. It is a logical, natural market, and the cultural closeness of our State to Mexico makes it an even more ideal opportunity. We would ask that the Congress of the United States take all steps necessary to promote and achieve free trade of livestock with Mexico and eliminate as many of the unnecessary export requirements as possible through working closely with the Mexican government.

Senator, I really appreciate this opportunity to testify for the New Mexico Cattle Growers' Association, and if there is any way that we can help you or obtain any information on this matter, we would be pleased to do so.

Senator DOMENICI. Thank you very much.

[The prepared statement of Mr. Harvey follows:]

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1-10-90

TESTIMONY OF THE NEW MEXICO CATTLE GROWER'S ASSOCIATION BEFORE THE SENATE BUDGET COMMITTEE

Senator Domenici, I am Phil Harvey, Jr. and I represent the New Mexico Cattle Grower's Association and the cattle producers of New Mexico on this panel. Mexico is a good market and it is continuing its growth. It is a "natural" for us in New Mexico due to its proximity and similarity of rainfall and topography in adjacent states. For the past ten years, the Mexican cattle herd size has been drastically reduced and Mexico is looking to the United States, as well as other areas to locate breeding stock for rebuilding. It appears that we are seeing renewed interest by the Mexican Government in helping the producers of Mexico with this rebuilding, although the Mexican Government spending on rural development has been in strong decline over a ten year period. There are signs that there may be a beginning of a reversal of this trend as lending to the agricultural sector shows indications of being increased. Funds are being made available to Mexico by agencies of the United Nations for agricultural development and institutions such as Banco Rural are showing strong interest in bringing U.S. cattle into Mexico. This all seems to indicate that Mexico is going to become a very significant market for our cattle.

The New Mexico Department of Agriculture has assisted New Mexico cattle breeders for a number of years in marketing cattle in Mexico, and the number of beef breeding cattle sold to Mexico from New Mexico has increased by 400% in the last four years. 1990, at this early observation, appears to be well on its way to showing another substantial increase in the number of cattle sold from our State to Mexico.

There have been some significant changes made by Mexico in the past year in the health requirements that are being imposed on U.S. breeding cattle prior to entering Mexico. These changes include expensive testing for Vibriosis and unnecessary requirements that females be virgin cattle served only by artificial insemination and bulls be virgin cattle or under twelve months of age in order to avoid the Vibriosis tests. This testing is both time consuming and expensive, and the alternative virgin requirements are ridiculously stringent, and when added to the other health requirements, create a poor climate for Americans to export cattle to Mexico.

Likewise, there have been other requirements, such as obtaining visas for the cattle to be shipped. The details and procedures on these visas are often changed or made unnecessarily difficult so as to cause greater expense and significant loss of time in exporting cattle. Most recently, most New Mexico exporters of cattle in 1989 were forced to obtain cattle visas from the Mexican Consulate in Albuquerque and the requirement was made by the Mexicans that no more than five animals could be placed on one health certificate and receive a visa, thus causing the veterinarians and the breeders to fill out numerous extra forms and pay many times the normal amount for the visas. In other words, a shipment of twenty bulls that could easily be written on one or two sheets would require at least four sheets, and the full visa fees would be paid on each sheet. While this was the requirement at the Albuquerque office of the Mexican Consulate, my own experience at the El Paso office was far different. I went to El Paso to obtain the Mexican visas for a shipment of 14 bulls in March of 1989, and had the bulls listed on three different sheets, prepared for the "5 animal to the sheet" rule being enforced in Albuquerque. To my surprise, the Mexican official told me I should have placed all 14 bulls on one sheet to avoid paying for three visas! To my knowledge, this situation changes frequently, based on the feeling of the Consulate on any given day.

Another recently instigated stumbling block to sending cattle to Mexico is the requirement by the Mexican Government that the importer of cattle into Mexico must apply for a special import permit in Mexico City, specifying the number, type, and ages of cattle to be brought in. If a Mexican buyer visits the U.S. and finds the cattle he wants to buy, obtaining this permit can frequently add 30 days or more to the already cumbersome system. Even buyers that already have permits prior to selecting their cattle are confronted with being limited to buying only the numbers and type of cattle specified on the permit, thus creating a barrier to spontaneous purchases.

It is the feeling of the New Mexico Cattle Grower's Association that these requirements, imposed by Mexico, greatly impede the sale of breeding cattle to Mexico and any help we could receive from the the U.S. Government to improve this situation would be greatly appreciated. It is also our feeling that free trade between Mexico and the U.S. with regard to livestock, is likely the best policy. While there are some U.S. cattlemen who oppose the importation of Mexican feeder cattle into this country, it is difficult to imagine that we could expect to continue to enjoy the benefits of the exportation of breeding cattle to Mexico if we do not allow the importation of their feeder cattle. Not only would an embargo of feeder cattle likely cause further Mexican Government restrictions on the movement of breeding cattle to Mexico, but also the Mexican ranchers seeking a market for their steers would not have the benefit of obtaining U.S. Dollars for their product. Obviously, these ranchers are purchasing breeding cattle with the money they receive for their feeder cattle, and usually without ever taking their money back to Mexico. Most of these people have bank accounts in the U.S., mainly for capital preservation, due to the severe rates of inflation that have been occuring in Mexico. Thus, the New Mexico Cattle Grower's Association seeks to maintain and improve the trade relations New Mexico cattlemen have with Mexico. This trade is beneficial to ranchers on both sides of the border and all efforts possible should be made to make this trade as efficient and easy as possible.

One way the Senate Budget Committee might greatly enhance the export of U.S. breeding cattle to Mexico would be to apply a portion of the funding earmarked for the promotion and marketing of other agricultural products, such as pecans, for the marketing of livestock. There are currently funds available for the enhancement of markets for many agricultural products in areas such as Thailand, Hong Kong, and Japan, but none of these funds may be used to help Americans take advantage of the livestock marketing opportunities in Mexico, or in other areas of the world. It is not the nature of cattlemen to seek Federal help in anything. However, where money has already been appropriated or will be appropriated for the marketing of agricultural products, we feel this funding should be spread around to all segments of agriculture, and not be limited strictly to certain products. The Marketing and Development Division of the New Mexico Department of Agriculture has been highly active in promoting the sale of New Mexico product worldwide, and with the help of Federal funding in most areas except for the marketing of livestock. Nonetheless, the NMDA has been extremely active and successful in the promotion of New Mexico breeding cattle to Mexico. This vigorous activity is well documented by the Department and many trips to cattle events and function in Mexico have been made, most often with New Mexico cattle breeders accompanying NMDA marketing specialists. The results have been dramatic and it is evident that we are merely "scratching the surface" of the potential Mexican market for breeding cattle. This past year, the NMDA was given funding by a group of New Mexico breeders to start a "vehicle purchase account" for the purpose of acquiring a Suburban for the purpose of escorting potential Mexican cattle buyers around the State. With just a little help from Congress, our program in New Mexico could escalate to incredible proportions.

Another point that has been of great concern to New Mexico cattlemen is the possibility of the closure of the port of entry at Columbus-Palomas. We feel quite strongly that all ports of entry must remain open for crossing cattle and that although the port at Columbus-Palomas is small, it does provide an outstanding outlet for New Mexico cattle to go into western Chihuahua and to Sonora. It is certainly out of the question to expect breeders from the Deming-Silver City areas to haul cattle bound for western Chihuahua all the way to El Paso for a trip back directly to the south. It is hoped that there will be funding available to maintain these ports of entry, no matter how small.

The New Mexico Cattle Grower's Association and the cattle breeders of the State of New Mexico seek to increase the exportation of cattle from New Mexico to Mexico. It is a logical, natural market and the cultural closeness of our State to Mexico makes it an even more ideal opportunity. We would ask that the Congress of the United States take all steps necessary to promote and achieve free trade of livestock with Mexico and to eliminate as many of the unnecessary export requirements as possible, through working closely with the Mexican Government. The New Mexico Cattle Grower's Association and I greatly appreciate this opportunity to explain our viewpoint on the Mexican cattle market and we would be pleased to offer our assistance in this matter in any way that might be helpful in the future.

Senator DOMENICI. Steve.

STATEMENT OF STEVE LEWIS, LEWIS LIVESTOCK, ARTESIA, NM; NEW MEXICO WOOL GROWERS' ASSOCIATION

Mr. LEWIS. I do appreciate the opportunity to talk on behalf of the sheep and goat producers of New Mexico and the New Mexico Wool Growers Association.

New Mexico ranks as a major sheep and goat producing state with 1989 production exceeding 650,000 head. More importantly, New Mexico's location and cultural harmony with the Republic of Mexico makes our State a strategic marketing channel for sheep and goats entering into Mexico.

Mexico ranks as the largest and most important market for packer sheep and goats. New Mexico producers, as well as producers from all over the United States, rely on the Mexican market and are directly and indirectly affected when Mexico does not buy.

Sheep and goat producers normally work their herds two to three times a year. When working their herds, they sort off animals into three basic groups.

First is animals which will be kept on the ranch for production.

Second is lambs or kid goats, and they are usually sent to small grain fields, feedlots or packing plants and the majority of these are consumed in the United States market.

Third is our older or nonproductive animals which include the packer ewes, bucks, nannies and mutton goats. These are no longer utilized in the United States. They are no longer utilized on the ranch. They are sent to slaughter, and that is where we utilize the Mexican markets.

Unfortunately, the United States market only utilizes a very small percentage of these older packer animals. In New Mexico, we are fortunate to have the Navajo Indian trade in northwestern New Mexico which consumes a small portion of the packer animals. Nonetheless, this market and all the other markets in the United States do not make a dent in the total United States inventory of packer animals. Therefore, Mexico, as you can see, is a very crucial market for our industry. Besides being an outlet for our packer animals, Mexico also increases their value from $8 to $10 a hundredweight.

Many of you might ask why there is such a big demand for packer sheep in Mexico when there is not in the United States. Basically, there are two reasons.

The first reason is that Mexico sheep production has declined and has been continuing to decline due to production, economic, and political problems and policies. I think from what we have heard here today, are going to see a big change here. I think this production situation may change for the better in Mexico.

The second reason is that packer sheep exported to Mexico are consumed exclusively by the "Barbacoa" industry. Barbacoa is a traditional dish prepared in underground pits from 6 to 8 hours and then served to the public primarily on weekends and special holidays. Barbacoa, originally a dish of the peasants, has grown in popularity and is consumed in large quantities primarily in Mexico City and the central Mexico areas.

Unfortunately, the United States does not have a single market that can come close to matching the demand, prices and usage by the "Barbacoa" industry.

Senator **Domenici**. What is that word?

Mr. **Lewis**. Barbacoa—barbecue.

Senator **Domenici**. I was trying to figure out what it was. Go ahead.

Mr. **Lewis**. In addressing the 1990 Farm Bill, I think our major emphasis would be free trade between the United States and Mexico. This is very critical to our industry. When Mexico joined the GATT, they basically changed from an import permit system to an import tariff system. In the past, Mexican importers were required to obtain an import permit from the Mexican Department of Commerce in order to import sheep. The notorious "permisos" hampered free trade and increased the cost of doing business. When the "permisos" were eliminated, we all cheered until we found out the Mexican government was not only assessing a 10-percent import duty, a 10-percent ad valorem duty and a 6-percent excise tax, but also requiring another "permiso" in the form of health certificates. The Mexico Government now hampers trade by assessing numerous import duties and by utilizing a health permit to control imports. We think the intent of GATT was somehow ignored or forgotten.

Last August, Mexico, without warning, implemented a new set of import regulations for livestock in which all ewes being imported for slaughter were banned, supposedly due to health reasons. The Mexican regulations allowed the importation of sheep for breeding purposes after undergoing numerous health tests and complying with other ridiculous and cost-prohibitive criteria. They also allowed the importation of sheep for slaughter only after meeting the exact same criteria as breeding stock except only castrated males would be allowed. Here in the United States, we do not have any older castrated males, so in other words, we didn't get across but very, very few sheep.

Then on October 1st, they changed this regulation, and slaughter ewes could once again cross only if they were ear-tagged with consecutive numbered tags. This ear-tagging serves no purpose. It is expensive and causes much more unnecessary stress on the animals. We need to strongly suggest to Mexico to drop the ear-tagging regulation. Also, while the border was closed and no ewes were crossing packer ewes dropped from $10 to $12 a hundredweight in price. They were bringing about $35 to $40 a hundred, and when the border closed, they were bringing an average of about $37 a hundred.

Once again, the Mexican government should not be allowed to disrupt and hamper trade by utilizing health regulations. Sheep and goat exports to Mexico are crucial to the United States industry just like the feeder cattle exports to the United States are crucial to the Mexican cattle producers.

Another point we would like to bring up is exchange rates. You all remember when the devaluation happened in 1982—the peso went from 25:1 to 150:1. This devaluation practically eliminated livestock exports to Mexico for 2 years. Today, the peso devaluation continues to be a problem and should be addressed in the Farm

Bill. The Mexican market is a crucial market to the United States livestock industry, and steps should be taken to address the weak peso, credit to buyers, availability of dollars and payment to the United States exporters.

Senator DOMENICI. It would be very good if we could solve the macroeconomic policies of problems of Mexico in a farm bill. We will try, but I mean, that is what you are talking about.

Mr. LEWIS. The chief industry's major concern is that Mexico can and will, as they did last summer, close their border to sheep imports for any reason at any time. The closure last summer is still affecting our slaughter ewe market today. Last January, the average price for slaughter sheep were $45 a hundred; today, it is about $38 a hundred.

We would like for Congress to address this issue and give the livestock industry some assurance that Mexico, in order to maintain free trade, will be required to leave the border open for exportation of slaughter sheep and cattle from the United States into Mexico. But we also feel that it should be a two-way street; Mexico should be able to bring their feeder cattle into the United States also. Thank you.

Senator DOMENICI. Thank you.

[The prepared statement of Mr. Lewis follows:]

US SHEEP AND GOAT EXPORTS TO MEXICO

Presented by Steve W. Lewis
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NEW MEXICO RANKS AS A MAJOR SHEEP AND GOAT PRODUCING STATE WITH 1989 PRODUCTION EXCEEDING 650,000 HEAD. MORE IMPORTANTLY, NEW MEXICO'S GEOGRAPHIC LOCATION AND CULTURAL HARMONY WITH THE REPUBLIC OF MEXICO MAKES OUR STATE A STRATEGIC MARKETING CHANNEL FOR SHEEP AND GOATS ENTERING MEXICO.

MEXICO RANKS AS THE LARGEST AND MOST IMPORTANT MARKET FOR PACKER SHEEP AND GOATS. NEW MEXICO PRODUCERS AS WELL AS PRODUCERS FROM ALL OVER THE UNITED STATES RELY ON THE MEXICAN MARKET AND ARE DIRECTLY AND INDIRECTLY AFFECTED WHEN MEXICO DOES NOT BUY.

SHEEP AND GOAT PRODUCERS NORMALLY WORK THEIR HERDS TWO TO THREE TIMES A YEAR. WHEN WORKING THEIR HERDS, THEY SORT OUT THEIR ANIMALS INTO THREE BASIC GROUPS:

1. ANIMALS WHICH WILL BE KEPT ON THE RANCH FOR PRODUCTION.
2. LAMBS. WHICH WILL BE SENT TO SMALL GRAIN PASTURE, FEEDLOTS OR PACKING PLANTS AND ARE CONSUMED MAINLY IN THE UNITED STATES MARKET.
3. OLDER OR NON-PRODUCTIVE ANIMALS INCLUDING PACKER EWES, BUCKS MUTTONS, NANNIES, AND SO FORTH WHICH WILL NO LONGER BE UTILIZED ON THE RANCH AND ARE SENT TO SLAUGHTER.

UNFORTUNATELY, THE UNITED STATES MARKET ONLY UTILIZES A VERY SMALL PERCENTAGE OF THE OLDER PACKER ANIMALS. IN NEW MEXICO WE ARE FORTUNATE TO HAVE THE NAVAJO INDIAN TRADE IN NORTH WESTERN NEW MEXICO WHICH CONSUMES A SMALL PORTION OF OUR PACKER ANIMALS. NONETHELESS, THIS MARKET AND ALL OTHER UNITED STATES MARKETS DO NOT EVEN PUT A DENT IN THE TOTAL UNITED STATES INVENTORY OF PACKER ANIMALS. THEREFORE, MEXICO, AS YOU CAN SEE, IS A VERY CRUCIAL MARKET FOR THE INDUSTRY. BESIDES BEING AN OUTLET FOR OUR PACKER ANIMALS, MEXICO ALSO INCREASES THEIR VALUE AT A RATE OF 8 - 10 CWT.

MANY OF YOU MIGHT ASK, WHY IS THEIR SUCH A BIG DEMAND FOR PACKER SHEEP IN MEXICO WHEN THERE ISN'T IN THE UNITED STATES? BASICALLY THERE ARE TWO REASONS:

1. MEXICO'S SHEEP PRODUCTION HAS DECLINED SIGNIFICANTLY AND CONTINUES TO DECLINE DUE TO PRODUCTION, ECONOMIC AND POLITICAL PROBLEMS AND POLICIES. THEIR INDUSTRY CAN NOT PRODUCE NEAR ENOUGH TO MEET DEMAND OF THEIR GROWING POPULATION.

2. PACKER SHEEP EXPORTED TO MEXICO ARE CONSUMED EXCLUSIVELY BY THE "BARBACOA" INDUSTRY. "BARBACOA" IS A TRADITIONAL DISH PREPARED IN AN UNDERGROUND PIT FOR SIX TO EIGHT HOURS AND THEN SERVED TO THE PUBLIC ON WEEKENDS AND

SPECIAL HOLIDAYS. "BARBACOA", ORIGINALLY A DISH FOR THE PEASANTS, HAS GROWN IN POPULARITY AND IS CONSUMED IN LARGE QUANTITIES PRIMARILY IN MEXICO CITY AND CENTRAL MEXICO AREAS.

UNFORTUNATELY, THE UNITED STATES DOES NOT HAVE A SINGLE MARKET THAT CAN COME CLOSE TO MATCHING THE DEMAND, PRICES AND USAGE BY THE "BARBACOA" INDUSTRY.

IN ADDRESSING THE 1990 FARM BILL, I WOULD LIKE TO EMPHASIZE THE FOLLOWING:

1. FREE TRADE BETWEEN THE UNITED STATES AND MEXICO. THIS IS VERY CRITICAL TO OUR INDUSTRY. WHEN MEXICO JOINED THE GATT, THEY BASICALLY CHANGED FROM AN IMPORT PERMIT SYSTEM TO AN IMPORT TARIFF SYSTEM. IN THE PAST, MEXICAN IMPORTERS WERE REQUIRED TO OBTAIN AN IMPORT PERMIT FROM THE MEXICAN DEPARTMENT OF COMMERCE IN ORDER TO IMPORT. THE NOTORIOUS "PERMISOS" HAMPERED FREE TRADE AND INCREASED THE COST OF DOING BUSINESS. WELL, WHEN THE "PERMISOS" WERE ELIMINATED, WE CHEERED UNTIL WE FOUND OUT THE MEXICAN GOVERNMENT WAS NOT ONLY ACCESSING A 10% IMPORT DUTY, 10% ADVALOREM DUTY, AND A 6% EXCISE TAX, BUT ALSO REQUIRING ANOTHER "PERMISO" IN THE FORM OF A HEALTH CERTIFICATE. THE MEXICAN GOVERNMENT NOW HAMPERS TRADE BY ACCESSING NUMEROUS IMPORT DUTIES AND BY UTILIZING A HEALTH PERMIT TO CONTROL IMPORTS. THE INTENT OF GATT WAS SOMEHOW IGNORED OR FORGOTTEN.

LAST AUGUST, MEXICO, WITHOUT WARNING IMPLEMENTED A NEW SET OF IMPORT REGULATIONS FOR LIVESTOCK IN WHICH ALL EWES BEING IMPORTED FOR SLAUGHTER WERE BANNED, SUPPOSEDLY DUE TO HEALTH REASONS. THE MEXICAN REGULATION ALLOWED THE IMPORTATION OF SHEEP FOR BREEDING PURPOSES AFTER UNDERGOING NUMEROUS HEALTH TESTS AND COMPLYING WITH OTHER RIDICULOUS AND COST PROHIBITIVE CRITERIA. THEY ALSO ALLOWED THE IMPORTATION OF SHEEP FOR SLAUGHTER ONLY AFTER MEETING THE EXACT SAME CRITERIA AS BREEDING STOCK EXCEPT ONLY CASTRATED MALES WOULD BE ALLOWED. WHO IN THE WORLD WERE THEY TRYING TO FOOL? NO ONE CASTRATES FIVE YEAR OLD BUCKS AND HOW ARE SLAUGHTERED EWES GOING TO SPREAD DISEASE WHEN BREEDING EWES WON'T?

THEN ON OCTOBER 1 THEY CHANGED THE REGULATION. SLAUGHTER EWES COULD ONCE AGAIN CROSS-ONLY IF THEY WERE EAR TAGGED WITH CONSECUTIVE NUMBERED TAGS. THIS EAR TAGGING SERVES NO PURPOSE, IS EXPENSIVE AND CAUSES MUCH MORE UNNECESSARY STRESS ON THE ANIMALS. WE NEED TO STRONGLY SUGGEST TO MEXICO TO DROP THE EAR TAGGING REGULATION: ALSO, DURING THE CLOSURE THE PRICE OF PACKER EWES DROPPED 10 TO 12 CWT..

LADIES AND GENTLEMEN, ONCE AGAIN, THE MEXICAN GOVERNMENT SHOULD NOT BE ALLOWED TO DISRUPT AND HAMPER TRADE BY UTILIZING HEALTH REGULATIONS. SHEEP AND GOAT EXPORTS TO MEXICO ARE CRUCIAL TO THE UNITED STATES INDUSTRY JUST LIKE FEEDER CATTLE EXPORTS TO THE

UNITED STATES ARE CRUCIAL TO THE MEXICAN CATTLE PRODUCERS.

2. EXCHANGE RATES. REMEMBER THE DEVALUATION OF 1982 WHEN THE PESO DROPPED 25:1 TO 150:1. THE DEVALUATION PRACTICALLY ELIMINATED ~~LIVESTOCK~~ EXPORTS TO MEXICO FOR TWO YEARS. TODAY, THE PESO DEVALUATION CONTINUES TO BE A PROBLEM AND MUST BE ADDRESSED IN THE FARM BILL. THE MEXICAN MARKET IS CRUCIAL TO THE UNITED STATE LIVESTOCK INDUSTRIES AND STEPS MUST BE TAKEN TO ADDRESS THE WEAK PESO, CREDIT TO BUYER, AVAILABILITY OF DOLLARS, AND PAYMENT TO THE UNITED STATES EXPORTERS.

THANK YOU VERY MUCH FOR THE OPPORTUNITY TO ADDRESS THIS HEARING. IF YOU HAVE ANY QUESTION, I WILL BE HAPPY TO ADDRESS THEM.

Senator DOMENICI. I think we have been working on this issue that you've just addressed. I hope there is a resolution to it; we understand that it is a problem, and we understand Mexico claims there is a justification. We will just continue to work on it. I assume it is still being worked on; is it not, Mrs. Smith?

Ms. SMITH. Yes, sir.

Senator DOMENICI. Mr. Hoagland tells me part of this latter concern you had has already been resolved, on the ewes; is that right? Mrs. Smith? I do not know the answer.

Ms. SMITH. Yes.

Mr. LEWIS. Which one are you talking about?

Senator DOMENICI. The border for slaughter ewes has been opened; has it not?

Mr. LEWIS. Yes, sir, that is what I said, that October 1st, it opened, but we still have to ear-tag them.

Senator DOMENICI. And that problem, you want us to continue to look at?

Mr. LEWIS. Yes, sir.

Senator DOMENICI. OK. It is much less onerous and less price deteriorating, but it is still a problem as you see it?

Mr. LEWIS. Yes, sir.

Senator DOMENICI. OK, I am sorry I did not understand.

Charlie, you are our last witness. We are delighted to have you. We are going to be right on time. I will take a couple of questions as soon as he is finished, provided he does not talk too long. [Laughter.]

STATEMENT OF CHARLES DICKERSON, CHARLES F. DICKERSON INTERNATIONAL AUCTIONEERS, LAS CRUCES, NM, NEW MEXICO FARM AND LIVESTOCK BUREAU

Mr. DICKERSON. I will see to it, Senator, that I do not talk too long.

One of the things I think we need to look into as far as the trade bill and U.S. policy, we need to develop a "good neighbor" policy. We need to develop trust between the United States and Mexico, and I think the U.S. Department of Agriculture and the entire United States government needs to be cognizant of the fact that we catch more flies with honey than we do with vinegar. We need to look at treating those people the way we want to be treated and go at it from there.

The market in Mexico for U.S. agricultural products, whether they be production, technology or implements, is definitely there. The new president is looking at agricultural development, and we are the closest source of those inputs. I think this is creating a need, in Mexico, for U.S. products. We are the only place they can really get this, and this is creating a strong market here which not only affects us on the border States, but also the prices and the market in the interior States and the northeastern States. As part of this good-neighbor policy, I think we along the border are probably going to suffer from the recent press over the Camarena issue. Most of the people in the United States are not acquainted with Mexico. I think that we need to send word to Mexico that we do not think every individual coming from Mexico to the United

States is in the drug business. I think this has really been blown out of proportion. We see this in our own business—people coming from the interior of Mexico to the United States to buy are given quite a hassle at the border because of the fact of the amount of cash they are bringing. Very little drug trade goes south; it is mostly going north. Those people are coming here, bringing U.S. dollars, because that is what most of us accept, to buy U.S. products and, consequently, are probably not involved in any illicit trade. If we can get a better reception committee at the border for these people who are usually well-educated, wealthy individuals and substantial businessmen, not in the narcotics traffic business, I think that will make things go a lot smoother for us.

We spend a lot of real dollars—those are dollars coming out of U.S. producers, not government dollars—to attract these people up here, then to have them be insulted at the border; to prove to the Immigration Service, that they are a farmer. How do you prove to an individual that you are a farmer? These kind of things need to be looked into so that the work we do to bring these people up here—and I say "we"—the New Mexico Department of Agriculture is very active in that. We spend a lot of producer money down there. Like Mr. Harvey was saying, the producers are the ones paying for these trips. It is U.S. real dollars, not tax money. We need to make those people aware of the fact that these are legitimate businessmen coming to the United States to spend money. I think that the development in Mexico of their agriculture to provide food, jobs and fiber, is something that we need to be looking at because the population in Mexico, under 10 years of age, is tremendous.

If they are not fed, clothed and employed in Mexico, we are going to see a lot of folks coming to the border. Then we are going to have more problems here on the border.

I think this free trade, in order to develop rural Mexico with more food production, better facilities, I think we're going to see a problem 10 years down the road that's going to result in more problems for Customs, Immigration and the law enforcement in the United States.

In summary, we need a good-neighbor policy. We need to treat the Mexican people like we want to be treated when we go down there, and I think that anything that the U.S. Department of Agriculture, or through the Treasury Department, anything we can do to establish a good-neighbor policy needs to be implemented.

Senator DOMENICI. Thank you very much, Charlie. Mr. Secretary, did you want to comment?

Mr. ENRIQUEZ. Just one comment, I think, to be fair. When I listened to Mr. Lewis, I did not know if I was in Mexico or the United States. Our lab industry, they complain about some conditions that have been put from the United States Government because they cannot export to the States. Our cattle industry, they complain that our animals [inaudible] because they say it's not necessary. I think what Mr. Dickerson has said is exactly right. Mrs. Smith and myself, we are listening to people, we are trying to understand both and we will solve the things on both sides. Thank you.

Senator DOMENICI. Let me just make a comment. I really had intended to find the right place to mention the NBC program—what was the name of it? Camarena Drug Wars? I didn't get to see it, but I've heard enough comments on it. I hope the Mexican leadership knows that in the United States, we're very free in terms of what anybody can produce, be it a movie or a four-part serial on television. Just from the little bit I've heard of it, I see justification for some of the Mexican leadership and Mexican people being quite angry. On the other hand, I hope they don't think that's the official policy of the United States. It seems to me many of the thrusts contained within it are passe from what is happening in the Republic of Mexico, but, nonetheless, it's occurring, and it certainly is not a good-neighbor policy. Nonetheless, we'll have some of that occur from time to time, I'm sure, on both sides.

Let me ask, is anybody prompted out there to—something that you really have to ask? Let's just say we're going to take two or three questions and that's going to be it, OK? Yes, sir?

Mr. DelaO. Manual DelaO from Economic Development and also ABQ Bank. We talked earlier this morning about maquila operations and one of the areas that is really getting hard across the border is the trash problems and also hazardous waste. I think that in order for New Mexico to also prepare for this, we need to take a look at the trash-to-energy projects. Those have been developed extensively throughout the Nation. We did that, also, in St. Louis. But in pointing that out, the trash-to-energy project, funds could be funneled through the university here so they could work on that. And then, also, provide power at the same time for the trash-to-energy projects at Santa Teresa for any of the maquilas that will be coming in the future. So that would be kind of a twofold deal which, also, the trash to energy would take care of low-grade hazardous waste. Thank you.

Senator Domenici. Thank you very much. Yes, sir?

Mr. Kretek. My name is Ed Kretek from Luna County County Commissioners. I like the way the New Mexico Cattle Growers and the Wool Growers—you know, we have a new port down in Luna County—about $4 million worth—and we would like everybody in the State of New Mexico to know that it's a good port. We would like for you to bring your stuff down there and go to Mexico. I think it would be good for the State of New Mexico to know that we're still down there. Thank you.

Senator Domenici. Thank you, Ed.

Mr. Araujo. I would like to add one more word. Pete Araujo, from Abaco Custom House Brokers, El Paso, Texas, and Columbus, New Mexico. One more word to the vocabulary of twin plants is production sharing, and——

Senator Domenici. Production sharing?

Mr. Araujo. Yes, sir, and this is very interesting to the Nation. They don't feel that they are shipping out jobs; they are sharing production. The State of New Mexico should try to address the Columbus problem by putting a road between Columbus, New Mexico, and Anapra. This would help. We have many cattlemen that are willing—they're willing to drive 132 miles to come through there. Eventually, if this was developed into a good port, service stations, motels and the overflow would hit New Mexico—or Deming—and Las Cruces. We're not trying to remove anything from them, we are trying to add. In benefit of many of our people here, I would like to advise that the Mexican Government has just added a benefit to the twin-plant industry which could attract more twin plants into Mexico. Fifty percent of their last year's exports can be sent to Mexico, duty free, as I understand it, for sale in Mexico. This should really be an attractive point.

Senator DOMENICI. Thank you. Yes, sir?

UNIDENTIFIED SPEAKER. Thank you, Mr. Senator, for the opportunity to be here. As a main truck loader at the Columbus Port of Entry—I heard reference to it quite a little today—we shipped 58,000 cattle through the port in days—just through the Christmas holidays. The Veterinarian Services worked until almost midnight on the 23rd of December, getting everything done. U.S. Customs stayed hooked. Their services are greatly appreciated, and we don't have any problems over there at the moment. As far as the facilities are concerned, we will have them finished by the end of this month, and I've seen requirements that are necessary, and we will have them totally finished by the end of this month. And just to say something about Luna County and the people that I work for over there, we've got quite a potential over there on that border right there; water, sewer, facilities. The thing we seem to lack are funds of some kind. There is mention about joint ventures between Mexico and the United States—packing animals going to Mexico. I see no reason why the possibility of a joint packing house between the United States and Mexico couldn't be looked into. There has been several of my customers approach me about the volume amount of cattle to go into Mexico like were imported last year into Mexico through Eagle Pass, through the Texas ports which were much more expensive than the port at Columbus.

Other than that, if there would be a possibility of getting a clearance for airplanes, out of Mexico, to clear Customs there during the dry season. Customs informed me that was a political issue, and so you're the only one I know. [Laughter.]

That's all I have to say. Thank you.

Senator DOMENICI. Would you, on your last point, get me a letter on that? Just on the last point?

UNIDENTIFIED SPEAKER. Yes, sir, I will.

Senator DOMENICI. Thank you very much.

OK, this is going to be our last one. I'm sorry, I must close down and keep my next appointment.

Mr. PENDLETON. I'm Matt Pendleton from Cloverdale near Animas.

Senator DOMENICI. Right.

Mr. PENDLETON. They play football down there. [Laughter.]

And I want to compliment the Senator on the type of meeting and this panel, and I think the theme of this meeting can be better relationships with Mexico and important issues have been addressed, and I want to thank everybody for the opportunity to be here.

Senator DOMENICI. Thank you very much. If we hold a hearing like this in a year are you still going to have a good football team? [Laughter.]

Getting shaky after that?

Mr. PENDLETON. No, no, no.

Senator **Domenici**. Maybe they have some way of drawing them there, I don't know.

Mr. **Pendleton**. We're having a hard time getting anybody to play us down there. They don't like to be beat.

Senator **Domenici**. How about the press, any last questions from any of you?

Unidentified Speaker. With regard to the twin-plant industries, does the Federal Government see transportation as the subject that could either sink or swim the industry in the next 20 or so years?

Senator **Domenici**. Well, I don't know if it would be fair to say that there's one single item of public or private nature that is a sink-or-swim item, but, clearly, congestion at the border is an enormous problem for the maquiladora program. Frankly, we put a whole bunch of money in that bridge in El Paso and it hasn't done a bit of good in terms of time from what I can tell. We've got new capacity, but the new add-on that came probably in just terms of number made the time longer. We don't see any great enhancement in the movement, even with the new money. And I think that's because of the overcrowding in certain areas. I don't think there's any question about that.

I think on the American side wherever you have facilities, transportation is a very, very important issue. I mean, just to have a border facility without not only access in and out, but a major network, so you can get well beyond the crossing, is a big impediment. Frankly, I don't care to address what the principal issue is on the Mexican side. They're obviously looking at some of their own issues. But it does seem to me that Chihuahua does point out an issue of adequate infrastructure for the people working there; everything from housing to water and sewer and the like is a serious problem. It is a frontier problem that they have of high proportion. The movement of people there for jobs hasn't been accompanied by the necessary things that people need to enjoy life—participate in basics. And that does show up in the program, incidentally. The worker turnover has a very high rate, and that has something to do, without any question, about the living in the area.

So whether they'll address that on their side, I'm sure there's some big thinking going on about that. Whether it moves it inland a little bit or whether it does another way, I don't know. I think on our side, at this point, from New Mexico's standpoint, I think it is official crossings and access to the kind of communities and land where economic development can easily occur.

Would you all, then, consider this meeting closed. Before I do that, I want to introduce Senator Bingaman's staff person who is here—Alice Saucedo—in the back of the room—would you please stand up. Thank you very much for coming. Senator Bingaman could not attend. He was here yesterday on another event and it didn't work into his schedule and you're always welcome to be with us and I thank you for being here. With that, the meeting is adjourned. Thank you all very much.

[The hearing concluded at 11:40 a.m.]

[Additional information follows for the record.]

FOREIGN INVESTMENT CLIMATE REPORT

JUNE 1989

AMERICAN EMBASSY
MEXICO

FOREIGN INVESTMENT CLIMATE STATEMENT

MEXICO

June 1989

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INVESTMENT CLIMATE STATEMENT

MEXICO

A. Economic Overview

Resources and Infrastructure

With a surface area of 764,000 square miles, Mexico is the thirteenth largest country in the world and third largest in Latin America after Brazil and Argentina. With a population of 84 million people (est. 1989), Mexico ranks eleventh in population and possesses a labor force of almost 27 million. Literacy is over 90 percent and per capita income is about $2,080. In addition to having the fourth largest oil reserves in the world, Mexico is a leading producer of silver (it is the world's largest), sulfur, lead and zinc and also produces copper, manganese, coal and iron ore. Mexico is also a large producer and exporter of coffee, fresh fruits and vegetables. In addition, the country's proximity to the United States and relatively low labor costs make it attractive to foreign investors.

Mexico has more than 37,000 miles of paved roads and 20,000 miles of railways. The railway system is government-owned. There are two major domestic airlines, Aeromexico and Mexicana and two rapidly growing regional carriers, Aeromar and Aero California. Direct air service is available from many U.S. airports to Mexico City, Merida, Guadalajara, Monterrey and other points. Major ports are Tampico and Veracruz.

In 1988 productive activities consisted of manufacturing (26.4 percent of GDP), commerce, restaurants and hotels (27.4 percent), services (20.6 percent), transportation and communications (7.6 percent), mining (3.9 percent), construction (4.0 percent), and electricity (1.1 percent). Agriculture accounted for the remaining 9.0 percent. The Mexican economy has been stagnant in recent years with no overall growth in the 1982-1988 period.

The government has been making a concerted effort to modernize the Mexican economy and attract more foreign capital into Mexico. It recently released new rules that greatly facilitate foreign investment and expand the number of sectors where majority foreign ownership is possible. Furthermore, direct state participation in the economy has been reduced markedly over the past several years.

During the present decade total foreign direct investment has constituted a relatively small portion--less than 10 percent of total gross fixed investment in the economy--and its share of GDP has been less than 5 percent. Since 1982 Mexico's access to international credit markets has been much more limited than in previous years. Authorized foreign investment grew rapidly in the 1986-88 period reaching over $9.3 billion (compared to $3.8 billion in the previous three years) and actual net foreign investment inflows in the balance of payments totaled over $6.7 billion in the same period (see Annex E). This was due in part to the debt-equity swap program which was suspended in November 1987 because of its inflationary and subsidy effects. The Mexican authorities hope that the new regulations and additional measures in the future aimed at attracting capital into specific sectors will result in even greater inflows in coming years.

Recent Economic Developments and the Economic Outlook

GDP growth in 1987 and 1988 was a modest 1.5 and 1.1 percent, respectively. This year it is projected at about 1.5 percent. In 1988 Mexico's external trade surplus fell to $1.7 billion, compared to $8.4 billion a year earlier as petroleum exports fell by $2 billion and imports rose by $6.7 billion, or 55 percent. Revenues from the in-bond industries expanded by 46 percent to $2.34 billion, the second largest single source of net foreign exchange after petroleum. Over the course of the year international reserves fell by more than $7 billion to $6.6 billion.

Mexico's external debt declined by about $7 billion last year to slightly over $100 billion, largely because the private sector cut its foreign obligations by more than half as it took advantage of substantial discounts offered by creditors to pay off debts. Public sector external debt remained flat in 1988 but fell by almost $1.7 billion during the first quarter of 1989, to $78.3 billion. Furthermore, the Mexican government has entered into intense negotiations with its external creditors in an effort to reduce substantially both the size and servicing payments on its foreign debt.

On the internal side, the economic situation has strengthened considerably since the introduction of the Economic Solidarity Pact (PSE) in December 1987. The Pact and its successor, the Pact for Stability and Economic Growth (PECE), introduced a year later, have combined tight fiscal and monetary policies with controls on wages, public sector and controlled prices and the exchange rate. These pacts have also entailed policies to open the economy and restrain private sector producers from raising prices. Inflation has declined from 160 percent in 1987 to 52 percent in 1988 and to a 12 month annual rate of just over 16 percent for the period ending in May 1989. Nominal ANNUAL interest rates have declined by more than 100 percentage points over the past eighteen months, but remain high at over 55 percent. Progress has been made in reducing the public sector financial deficit which fell from more than 16 percent of GDP in 1987 to 13 percent of GDP in 1988. In June 1989 the government announced that the PECE would be extended through March 1990.

The Mexican government aims to bring about far reaching structural changes by opening the economy and implementing policies to increase efficiency both in the public and private sectors. Since 1985 fiscal and credit policies generally have been tight even though this has meant that economic activity has been curtailed. Progress has been made in reducing the number of state-owned companies and the level of subsidies required to operate these companies. On the external side, Mexico joined the General Agreement on Tariffs and Trade (GATT) in 1986, thereby committing itself to long term trade liberalization. Between 1985 and 1988, manufactured exports more than doubled, official import prices have been eliminated and both tariffs and import licensing requirements have been dramatically reduced. Furthermore, between May 1986 and October 1987 the government carried out a highly successful debt/equity swap program (now suspended because of its subsidy and inflationary impacts) which, combined with the government's increasingly favorable attitude toward foreign investment, brought almost $3 billion in new foreign investment commitments to the country. Also, it has taken responsible steps to reduce its external debt servicing burden.

While these policies have helped to put the country on a sounder footing, serious internal economic problems still have to be addressed. The major challenge facing economic policy-makers is how to deal with the interrelated phenomena of high real domestic interest rates and a large public sector deficit. To meet this challenge the Mexican authorities believe it is essential to follow through with restrictive measures, devoting particular attention to inflation, reducing debt servicing and current expenditures in the government budget, streamlining the public sector and stimulating private investment. A critical element in the success of these efforts will be successful external debt negotiations and the continued support of the business sector and organized labor.

B. Government Attitude Toward Foreign Private Investment

Foreign investment is generally welcome in Mexico, and the publication on May 16, 1989, of new regulations intended to stimulate it is a positive development. These rules greatly facilitate the procedures for bringing new investment into the country and open many new possibilities for majority foreign ownership. Foreign investment has grown significantly over the past several years, but remains a small share of total investment in the economy. The Mexican authorities would like to increase the figure progressively from about 10 to 15-20 percent of total annual new investment.

The rules governing foreign investment are contained in three laws originally enacted during the 1970's and their subsequent implementing regulations: The 1973 Law to Promote Mexican Investment and Regulate Foreign Investment; the 1973 Technology Transfer Law; and the 1976 Law on Inventions and Trademarks which was modified at the end of 1986. The Mexican government is particularly interested in investments which entail important technology transfer, employment generation, industrial diversification, and which have high local content and export potential.

Prior to the mid 1980s direct foreign investment played a relatively small role in Mexico's total external financing. The need was fulfilled principally by borrowing. However, in recent years the Mexican government has made it clear that foreign investment is a top priority and is critical for the future growth of the Mexican economy, a marked change in attitude. In February 1984 it issued guidelines for foreign investment specifying that foreign ownership would be particularly encouraged in certain high priority sectors such as heavy machinery, electronic equipment, high-technology products, and tourism. Later that year the government published new regulations facilitating administrative requirements for the National Foreign Investment Commission (NFIC). In 1985 it issued a resolution under which foreign capital from international financial development corporations would be considered as neutral capital and not regarded as foreign investment. In 1986 it issued liberalized rules for small and medium sized investors. In February 1988, the NFIC published a new resolution entitled "General Resolution to Streamline and Update the General Resolutions Issued by the National Foreign Investment Commission." This resolution updated all previous general resolutions published by the NFIC and simplified some authorization procedures. Finally, the most far reaching step was taken in May 1989 with new rules which greatly facilitated the foreign investment approval process and opened the door for automatic or near automatic majority foreign ownership of companies in many sectors of the economy.

In their efforts to attract foreign investment in recent years the Mexican authorities have placed particular emphasis on complex industries which otherwise could not be developed in Mexico, industries which require large investments per employee, industries with high export potential, and the in-bond industries. They have allowed 100 percent foreign ownership of the maquiladoras or "in-bond" industries which in most cases assemble products from U.S. components which then reenter the United States under harmonized system tariff item 9802, paying duty only on the value added in Mexico. Furthermore, they have encouraged increases in existing foreign investments to be channeled into priority zones with special emphasis accorded to plant modernization, export performance requirements, and increased use of local inputs.

Among developing countries Mexico has become an increasingly attractive market for foreign investors, in large part due to the progress in relaxation of regulations over the past five years and its proximity to the U.S. market. Traditionally, foreign investors as a group have been treated well and most problems have been resolved in a fair and equitable fashion. Over the next several years most foreign investment applications are likely to be approved quickly and efficiently. Furthermore, the authorities probably will give favorable consideration to new foreign investment proposals that previously would have been held up or denied.

C. Rules and Regulations Covering Investment

Basically, the three laws mentioned in Section B are at the heart of the Mexican system for regulating and controlling direct foreign investment. The most important of these are the 1973 Law to Promote Mexican Investment and Regulate Foreign Investment and the May 1989 regulations pertaining to this law. The law codifies previously existing laws, policies, and regulations governing foreign investment. It applies to investments in Mexican businesses and the acquisition of Mexican real and personal property. It requires that all foreign investments in Mexico be registered at the National Register of Foreign Investment. Any expansion, relocation or the manufacture of new products by existing firms generally are treated as new investments.

Under Mexican law the state has the exclusive right to develop petroleum and other hydrocarbons and basic petrochemical products, mining of radioactive minerals, nuclear energy, electricity, railroads, telegraphic and radio communications, and certain other minerals in the national reserve--including sulphur, phosphorous, and potassium which are used in fertilizer production. As of 1982 banking has also been limited to the State. However, the Petroleum Development Plan of 1986 reclassified 36 petrochemical products from basic to secondary, which meant that their production would no longer be restricted to a state monopoly, Petroleos Mexicanos (PEMEX). Other reclassifications of petrochemical products which will facilitate foreign investment are expected to be announced by the government over the next several months. Foreigners will be able to assume minority positions of up to 40 percent in companies producing these products.

Activities reserved exclusively to Mexican companies include: public roads, domestic air and maritime transportation; forestry exploration; gas distribution; radio and television; stockbrokerage and exchange houses; credit unions; fixed rate mutual funds; warehouses; and fishing cooperatives. (See Annex B for a complete listing of sectors reserved to the state and to Mexican nationals.)

The 1973 Foreign Investment Law also established a National Foreign Investment Commission (NFIC) to regulate foreign investments and approve or disapprove projects. This is a semiautonomous agency within the Secretariat of Commerce and Industrial Development (SECOFI). It is composed of members from the Secretariats of Government, Foreign Affairs, Finance and Public Credit, Programming and Budget, Mines and Parastatal Industries, Commerce and Industrial Development, and Labor and the Social Security Institute. The private sector is not represented on the NFIC.

The NFIC operates through an Executive Secretary and screens all applications for potential investors in line with 17 criteria contained in Article 13 of the law. (The Executive Secretary is the Undersecretary of Industry and Foreign Investment, who is also the titular head of the National Registry of Foreign Investment and supervises the joint staff of the three entities.) The most important of these criteria are that foreign investment should: (a) not displace national companies which are operating satisfactorily or be directed into areas adequately covered by national companies; (b) have positive balance of payments effects, particularly by expanding exports; (c) increase local employment opportunities; (d) incorporate local inputs into its products; and (e) offer technological assistance to the country. In recent years these criteria have been interpreted liberally and as noted below the May 1989 regulations provide for automatic NFIC approval if certain criteria are met.

When the 1973 law was originally formulated one of its most important features was ownership limitation of 49 percent on foreign investment unless excepted in the national interest. Although legally the limitation still exists, since 1985 the Mexican authorities have tried to be flexible in this regard and 100 percent foreign capital share has been allowed for projects in a number of sectors including electric and non-electric machinery and equipment, electronic computer equipment, transport equipment, chemicals, high technology services and the hotel industry. Even more flexibility can be expected in these and other sectors in the future.

Since 1981 the NFIC must approve any acquisition by a predominantly Mexican holding company having foreign investors when the foreign share is increased to more than 25 percent of the capital of the holding company or when foreigners obtain the right to determine the management of the other company. Mexican enterprises controlled by foreigners must obtain prior authorization for the acquisition of more than 25 percent of the capital stock or 49 percent of the fixed assets of an existing enterprise regardless of whether it is to be purchased from Mexican or other foreign investors. Existing minority share foreign investors may acquire up to 49 percent of increases in capital while foreign investors who already own a majority share may purchase up to 100 percent of such new capital.

In December 1988 the government reorganized the foreign investment approval and promotion function into the Directorate General of Foreign Investment (DGIE) within the Undersecretariat of Industry and Foreign Investment in the Secretariat of Commerce and Industrial Development (SECOFI). The purpose of the DGIE is to verify that foreign investment fulfills the requirements and conditions of the 1973 Foreign Investment Law as well as the Law on Technology Transfer. Its principal goal is to try to meld foreign investment inflows with the objectives of the National Development Plan (NDP). The 1983-1988 NDP stipulated that: (1) export promotion and import-substitution projects will be favorably considered, (2) bilateral co-investment, technology transfer, financial and commercial accords will be sought with other nations; (3) small and medium sized foreign firms "whose investment and technology transfers carry smaller risks of (foreign) dependency" will be given more flexible treatment; and (4) Mexicanization efforts will be closely monitored to ensure that new Mexican shareholders are able to gain proportional control over company operations.

The 1989-1994 National Development Plan, announced on May 31, 1989, shows a much more liberal approach toward foreign investment. Its objective is to actively promote such investment by: (1) making the procedures for authorizing new investments permitted by the law automatic, rapid and transparent; (2) simplifying procedures and formalities and defining requirements precisely; (3) taking maximum advantage of technological knowhow and access to foreign markets that foreign investment permits; and (4) creating mechanisms so that foreign investment does not place additional pressures on national financial markets.

In February 1988, the NFIC published a new general resolution to streamline the administrative procedures required for approval of foreign investments. The most important of these was a requirement that the Foreign Investment Commission make a determination on foreign investment applications within 30 days. It also incorporated rules originally published in 1986 regarding the activities of small and medium sized industries. This resolution was superseded by the publication of the May 1989 foreign investment regulations.

A detailed synopsis of the new foreign investment regulations is contained in Annex A. Highlights are as follows:

A. Automatic majority foreign ownership is allowed for foreign companies meeting six criteria:

   1. A maximum investment of $100 million in fixed assets. (This figure will be periodically adjusted.)

   2. Direct external funding provided through subscriptions of capital, external credit, or foreign funds intermediated by Mexican financial institutions.

   3. Location outside the country's three major industrial cities--Mexico City, Monterrey and Guadalajara.

   4. At least a balance between foreign exchange income and outlays during the first three years of operation.

   5. Permanent jobs and training for workers.

   6. Adequate technology and adherence to existing environmental requirements.

B. Temporary access may be allowed for foreign investors through 20 year trusts to sectors generally limited to Mexicans. This can occur in cases where Mexican companies are experiencing financial difficulties or for companies with high export potential.

C. Special trust funds will be set up to liberalize foreign access to the stock market. These trust funds will consist of "mutual capital" that will allow foreigners to participate in Mexican companies' profits but not in their administration or control.

D. Foreign investment applications must be acted upon within 45 days of their presentation to the National Foreign Investment Commission. If no response is given within that period the application is automatically approved.

E. A committee to promote foreign investment in Mexico will be established to provide consultation to the Secretariat of Commerce and Industrial Development. It will include representatives from the government, the private sector, and labor.

In releasing the new regulations the Mexican authorities indicated that special emphasis will be accorded to attracting foreign investment into the automotive, capital goods, textiles, agroindustry and agricultural sectors. Furthermore, majority foreign ownership will be allowed in some sectors where it was previously prohibited because of "administrative restrictions." These include glass, cement, iron, steel and cellulose. However, debt-equity swap programs will not be authorized because of their inflationary effects.

For several years the NFIC has been working on mechanisms to help alleviate financial problems of Mexican companies (with or without foreign participation) occasioned by their external debt obligations and by reduced domestic demand. In dealing with these problems, the NFIC encourages the use of domestic financial resources, although foreign investments through debt capitalization are allowed in some instances where the NFIC determines that the economic activity is important and that such investments are the only way that priority companies can survive.

Patents and Trademarks

The second important law regulating foreign investment is the February 1973 Technology Transfer Law (modified in late 1986) which imposes standards and prior registration requirements for patents, trademarks, technology and managerial services. Its administrative apparatus is the National Registry for the Transfer of Technology, which must approve or disapprove all contracts for the use of patents and trademarks based on a number of criteria including costs and the local availability of the technology in question. In enacting this law, the Mexican authorities sought to reduce dependence on foreign technology and provide state support to Mexican purchasers in their negotiations with the foreign companies.

Patents are issued for 14 years and are non-renewable. They must be exploited within three years or a non-exclusive license to use the patent may be authorized by SECOFI. Among the notable changes put into the law in 1986 is a provision that product patents will be allowed only after at least 10 years for chemical and pharmaceutical products, genetic processes to obtain plant varieties and animal breeds, and biotechnical processes (other types of products and processes are generally protected under the law). All royalties and other benefits from the license must be approved by the Mexican authorities. In general the Mexican government limits royalties for the use of foreign patents.

Certificates of invention may be authorized in lieu of a patent. In this case the inventor has the right to receive royalties from the use of the product. Certificates of invention are available for: (a) any patentable invention, (b) processes for obtaining foods and beverages for human consumption, and (c) biotechnical processes.

Trademarks are registered for a five year period and may be renewed. A Mexican trademark lapses if not used within three years. Although the law originally required a Mexican trademark on goods produced in the country in combination with a trademark originating outside of Mexico, this requirement was eliminated in 1987.

The law also requires that all products fabricated in Mexico be labeled with a distinctive Mexican trademark. These may or may not be linked to the foreign or international trademark.

The Automotive and Pharmaceutical Decrees

Over the past six years the atmosphere for foreign investment has been influenced by the decrees regulating the automotive and pharmaceutical sectors. Most of the companies in these industries so far have been able to conform to the decrees, but only after lengthy discussions with the government on how they would be implemented.

The Automotive Decree was published September 1983. Its stated objectives were to improve the efficiency of the industry, promote research and development, generate employment, standardize components, help strengthen Mexico's balance of payments, and increase local content.

Between 1984 and 1987 the Decree reduced the number of car lines and models. However, assemblers earned additional car lines through the export of components and vehicles. Local content requirements for autos and trucks were increased, but with exemptions for vehicles destined for export. The average local content required of each assembler across product lines was boosted from 50 to 60 percent in the 1984-87 period. (Vehicles produced primarily for export have lower national integration requirements depending on what share of their production is sold domestically.) Vehicle assemblers were further required to balance foreign exchange transactions on a model year basis and no more than 20 percent of foreign exchange earnings could be generated by "in-bond" industries. Also, the Decree effectively reserved the medium-sized truck market for majority Mexican companies.

The Mexican government has indicated that it soon will be issuing a new decree on auto parts. This would increase the number of product lines foreigners can produce with majority ownership and be aimed at a gradual and integral opening of the sector.

The Pharmaceutical Decree was promulgated in February 1984. It was designed to promote the development of Mexican laboratories, to rationalize the number of medicines on the market, to expand the domestic production of raw materials (essential ingredients) used in the manufacture of medicines, and to increase exports of pharmaceutical products.

The pharmaceutical industry, led by the multinationals, instituted court proceedings against the Decree, claiming it was illegal. The most controversial elements of the decree were a generics program (that was never introduced) and lack of exclusive rights for manufacturers to make products which they invented or discovered and/or for them to receive payment for technology. These problems resulted from the fact that Mexican law at that time specifically excluded pharmaceutical products from patent protection.

Implementation of the Decree was delayed while the industry and government officials negotiated a settlement. On April 2, 1984, the government issued mutually agreed regulations which gave some measure of process patent protection to the pharmaceutical industry. Modifications to the Law on Patents and Trademarks (described above) permit product patents for pharmaceutical products beginning in 1997.

The Mexican authorities have indicated that the pharmaceutical decree may be soon modified or abrogated. They intend to open this sector further and perhaps revisit the issue of patent protection.

Price Controls

The Mexican government maintains price controls on a number of sensitive products. Tight controls pertain to many basic foodstuffs, such as corn, rice, beans, fish, butter, milk, soluble coffee, and vegetable fats and oils. Less rigorous controls based on changes in costs are applied to another group of products, such as steel, cellulose, fertilizers, household appliances, trucks, buses, tractors, soap, paper and others. All pharmaceutical products and their selling prices must also be approved by Mexican authorities. The Mexican government is making an effort to reduce price controls for many products. As they are loosened there is a catch up period; consequently, in general since 1986 prices of controlled products have risen faster than prices of non-controlled products.

"Special 301" - Intellectual Property Provisions

The "Special 301" intellectual property provisions of the United States Omnibus Trade and Competitiveness Act of 1988 call for the development of an overall strategy to ensure adequate and effective protection of intellectual property rights. Action plans have been developed for a number of countries, including Mexico. In the case of Mexico the objectives are to obtain adequate patent protection for all classes of inventions, including accelerated phasing-in of product patent protection for inventions before they would otherwise be eligible for protection in 1997 and to promote its constructive participation in multilateral intellectual property negotiations. The Office of the United States Trade Representative will formally review progress in achieving these objectives no later than November 1, 1989.

The Mining Industry

The 1917 Mexican Constitution makes subsoil resources and minerals the property of the nation, and companies wishing to open mining operations must obtain a concession from the government. Such concessions are only granted to Mexican nationals or majority-owned Mexican firms. Exploitation of some minerals, such as sulphur, iron, coal and phosphoric rock requires 66 percent Mexican ownership.

Two types of mining concessions may be granted--for exploration and for operations. The maximum exploration concession is 50,000 hectares which must be reduced to a maximum of 5,000 hectares before operations may begin. Once operating concessions are granted companies normally must agree to large minimum annual expenditures. Royalty payments to foreigners are limited to a maximum of 3 percent of sales.

Mexican Securities Markets

Both Mexican companies and foreign firms operating in Mexico may list their securities on the Mexican Stock Exchange, provided they have prior authorization from the National Securities Commission. Each company must provide an annual financial statement accompanied by the opinion of a Mexican certified public accountant. No capital gains tax is levied on profits from the sale of stocks.

Non-Mexicans are restricted from investing in peso and dollar denominated (pagafes) Treasury bills although foreigners resident in Mexico are permitted to invest in these instruments. At present only a limited number of marketable stocks are open to investment by foreigners. However, non-Mexicans are allowed to invest in mutual funds--stock funds, fixed interest funds and venture capital funds. According to the new foreign investment regulations special trust funds are to be set up to liberalize foreign access to the Mexican stock market (see Annex A).

Foreign investors may obtain Mexican stock investments through foreign stock exchanges by purchasing the Mexico Fund (a closed end mutual fund set up in 1981 and listed on the New York and International London stock exchanges) or American depository receipts (ADRs) of Mexican companies traded on NASDAQ.

Establishing a Corporation

Most foreign investors operate in Mexico through corporations (Sociedades Anonimas). Foreign-owned corporations are subject to the same laws as local companies as well as the special regulations governing foreign investment. Prior authorization (for up to 100 percent foreign ownership) is required by the NFIC in those cases where companies do not meet the six criteria under the new investment regulations. Such authorization includes a statement on the minimum share of capital stock to be owned by Mexicans and a statement that foreigners will be treated as Mexican citizens regarding their stock ownership. It also reiterates that foreign stockholders may not request protection from their governments regarding such ownership under penalty of forfeiting their stock to the Mexican government (i.e. the Calvo Clause). Further, it puts limits on the types of activities in which the company can participate.

A Mexican corporation must have at least five shareholders and, except in certain sensitive sectors, usually can be established within 1-2 months. In most cases at least 20 percent of the capital stock must be paid immediately and the remainder within one year. Corporations can issue bonds and other types of obligations for sale to the public and can contract secured and unsecured loans. In cases where foreigners have large minority shareholdings, say 40 percent or more, it is sometimes possible to obtain an assured voice in operations by insuring that the corporation's charter provide that any decisions in critical areas such as appointments of high level executives, large borrowings and modifications to the charter require a two-thirds majority of voting shares.

Taxation

The major taxes levied on companies and individuals in Mexico are income taxes, a value added tax, import duties, payroll taxes (mainly social security), and local real estate taxes. Federal production taxes are levied on the mining industry and excise taxes are charged on alcohol, cigarettes, gasoline and several other products and services.

A new Mexican tax law became effective at the end of 1986 and it was amended in 1988. Under this law corporate income tax rates are being progressively reduced over a 5 year period from 42 to 35 percent (the 1988 amendments put the lower rate into effect immediately) and for individuals from 55 to 40 percent. Additionally, companies are no longer permitted to deduct all interest payments on their outstanding debts. Instead they can deduct only that portion of interest which is above inflation; i.e., "real" interest payments. (The Consumer Price Index is used as the deflator.) The law also allows accelerated depreciation for most types of fixed assets. The amount of first year depreciation allowed ranges from 36 to 95 percent depending on the type of asset. (See Annex I.) In 1988 a two percent assets tax was levied on companies incorporated in Mexico.

All foreign source income earned by Mexican corporations is subject to tax although such income usually qualifies for a foreign tax credit. Mexican branches of foreign companies are subject to taxes only on income related to business operations in Mexico. Dividend remittances are not subject to tax if a company has paid taxes on its profits and is remitting a portion of these profits. If a company makes remittances above its profit levels (or it has no profits) dividends are subject to a 35 percent tax.

D. Investment Incentives and Performance Requirements

Investment and development incentives in Mexico are highly complex. Thus only a brief summary of them will be offered here. Both national and foreign companies qualify for accelerated depreciation benefits on investments and this is often the most important investment incentive.

The Mexican government has designated both priority development zones in the country and priority industries for special incentives. Among the priority zones are seacoasts, ports, and frontier zones where industrial development is encouraged to help expand exports. Specifically excluded are heavily populated urban areas such as Mexico City, Guadalajara and Monterrey. Priority industries are divided into Categories 1 and 2. Category 1 includes agro-industries and many categories of capital goods. Category 2 includes nondurable consumer goods, electric household appliances, certain types of furniture, parts for transportation industries, equipment and parts for certain service industries, intermediate petrochemical and metallurgical products, pharmaceutical products, and construction materials. Both categories qualify for special tax credits, with Category 1 industries obtaining more attractive incentives.

Fiscal Incentives

Tax credits ranging from 10 to 25 percent of federal corporate taxes are available to Mexican majority-owned companies. The amount of the credit depends upon: (1) the location of the investment; (2) the type of industry; (3) the amount of employment generated; (4) purchase of machinery and equipment made in Mexico; and (5) the size of the company, with small investors being favored.

Certain economic activities qualify for reduced rates of income taxes: agriculture, cattle breeding, and fishing can obtain a 40 percent reduction; companies processing or transforming their own products can qualify for a 25 percent reduction, and businesses publishing books can qualify for a 50 percent reduction. Also many royalties and fees paid by foreigners to Mexican companies for technical assistance may be taxed at a flat rate of 10 percent.

Companies which purchase shares in other Mexican enterprises may also obtain special tax breaks. Dividends and other profit distributions from such investments are not subject to the 21 percent dividend withholding tax. Also, reductions in federal income taxes of 15 to 20 percent are available for industries in strategic sectors such as mining and petrochemicals, provided the company is located in a priority zone.

The following table summarizes the fiscal incentives to industry as outlined in Mexico's 1983-1988 Industrial Development Plan. The geographic zones are described in Annex G.

FISCAL INCENTIVES TO INDUSTRY

(Percent Tax Credit for Investments
and for Employment Generation)

Geographic Location of Investment	Small Companies	Priority Activities			
		Category I		Category 2	
	Invest (a)	Invest	Employ.(c)	Invest.	Employ.(c)
Zone I	30	20	20	15	20
Zone II	30	20	20	10	20
Zone III	25(b)	20	20	10(b)	20(b)
A		-	-	-	
B	25(b)	20(b)	20(b)	10(b)	20(b)

Geographical Location of Investment	Non Priority Activities	All Industrial Activities	
		Purchases of Mexican Mfg. Machinery	Jobs Generated by Add. Invest.
Zone I	-	5-15	20
Zone II	-	5-15	20
Zone III	-	5-15	20
A		5-15	
B		5-15	20

(a) Companies with fixed assets not greater than 200 times the annual minimum wage in the Federal District.

(b) Applicable only to extensions of production capacity within the same industrial field.

(c) Percent of total wages paid for new employees.

Financing

Nacional Financiera, S.A. (Nafinsa), a state owned development bank, provides loans to companies in priority development areas and industries. It is active in promoting joint Mexican-foreign ventures for the production of capital goods. Most of its operations are through trust funds to promote industrial development. These funds include: FOMIN, which helps to capitalize small and medium sized industries by purchases of stock shares in the companies; FIDEIN, which helps to decentralize industries and stimulate development of certain regions; and FONEP, which finances feasibility studies. Nafinsa also has several trusts to undertake co-investments with foreign banks.

Many Mexican states also have development programs for attracting industry. These include exemption from or reduction of state taxes, real estate taxes, land transfer taxes, and deed registration taxes. Companies receiving such benefits are usually disqualified from receiving federal benefits.

Export Incentives

The National Foreign Commerce Bank (Bancomext) and FOMEX, which is administered by Bancomext, offer financing for both export and pre-export loans. FOMEX also offers financial assistance to Mexican manufacturers whose products replace imports. The Bank of Mexico's Fund for Industrial Equipment Financing (FONEI) provides export industries with loans for purchases of equipment. Under the agreement on export subsidies between Mexico and the United States signed in April 1985 the Mexican government agreed to eliminate subsidized peso financing by the end of 1986 by progressively increasing interest rates to three month Treasury bill rates.

Until 1983 exporters qualified for rebates of certain federal taxes and customs duties under the Certificados de Devolucion de Impuestos (CEDI) program. These rebates were up to 15 percent of the sales price of the merchandise. At present this program has been suspended.

Incentives for Special Industries

Mining, tourism and cement production qualify for special incentives in Mexico. Mining companies receive both subsidies and reduced income tax rates. Companies investing in hotels and related services are eligible for CEPROFIS ranging from 8 to 12 percent of federal corporate taxes. Cement companies may obtain a 75 percent reduction in import duties on machinery and equipment not produced in Mexico.

Since 1971 foreign investors have been encouraged to participate in the development of resort areas. FONATUR, a government trust fund, has undertaken large infrastructure investments to develop such resort areas as Cancun and Ixtapa. It also sells rights to use land for hotels, condominiums and shopping centers. Foreigners may own these rights, but do not receive outright title. Mexican law prohibits foreign ownership of real estate in restricted zones i.e. within 31 miles (50 kilometers) of seacoasts or 62 miles (100 kilometers) of the land borders. Such real estate must be placed in trust with a Mexican trustee (usually a commercial bank). The beneficiaries of the trusts retain all rights, except title. The maximum life of such a trust is thirty years but under the May 1989 foreign investment regulations the trust may be renewed by the original beneficiary so as to allow long term investments to mature fully. Additionally, the NFIC may authorize foreign investors and companies to participate in investment trusts (e.g. in a factory) lasting up to 20 years to obtain shares in Mexican companies in restricted zones in cases where the Mexican company is facing severe financial difficulties or needs capital investment to increase exports. (See Annex A, Title 3.)

E. Bilateral Investment Agreements

The United States does not have a bilateral investment treaty with Mexico. However, in November 1987, the two governments signed an "Understanding Concerning a Framework of Principles and Procedures for Consultations Regarding Trade and Investment". This understanding establishes a consultative mechanism which allows either government to request consultations within 30 days on any matter concerning bilateral trade and investment. The understanding included an immediate action agenda requiring consultations within 90 days of signature on textiles, agricultural, electronic and steel products, investment, and technology transfer and intellectual property matters. These consultations continue. In addition, the two governments have been consulting on Mexico's new investment regulations.

F. OPIC Programs

There is no Overseas Private Investment Corporation (OPIC) Agreement with Mexico.

G. Labor

Unskilled and semi-skilled labor is plentiful in Mexico. Skilled labor is scarce but this can usually be rectified by adequate training programs. Most companies are able to retain good employees, with the possible exception of certain technical fields and the border area in-bond industries which have been plagued by high turnover of personnel. Mexico has a large pool of high-quality managerial talent. At present a large proportion of the work force is unemployed or under-employed, except in border cities, and the general decline in economic activity from 1982-1989 had an adverse impact on job creation. Mexican labor law requires that at least 80 percent of the employees of a company be Mexican citizens. Nearly one million new workers enter the workforce each year.

In Mexico City the minimum wage as of May 1989 is 8,800 pesos per day (or about $3.60 at the current official market rate of exchange). It is somwhat lower in certain other parts of the country. In addition, employers bear a number of additional costs on behalf of the employee in accordance with the federal labor law. These include severance pay on involuntary retirement (workers resigning, retiring, or dismissed after 15 years of service receive 12 days compensation for each year of employment plus all other severence benefits), a 5 percent payroll tax to finance housing, profit sharing, and social security. The social security program covers medical expenses, workmen's compensation and old age and disability programs. Employers' costs for the program range from 12-15 percent of salaries.

In general, fringe benefits are a higher percentage of a worker's salary in Mexico than in the United States, largely because relative salaries in Mexico are much lower. Moreover, federal labor law generally favors the employee in relations with an employer.

Probably more than half of the non-agricultural work force is organized. For the past few years strikes have been limited and they are usually settled quickly. Strikes which are more difficult will usually draw government mediators to help facilitate the settlement process.

H. Foreign Trade Zones/Free Ports

(a) In-Bond Industries

In an effort to expand employment and training opportunities, the Mexican government allows duty free imports of machinery, parts, and raw materials for the assembly and finishing of products in Mexico for re-export to the United States or other countries. Generally if the parts are of U.S. origin and are not substantially transformed, U.S. import duties are levied only on the value added in Mexico. Most of the companies in this Mexican program are approved foreign owned manufacturers. At the end of 1988, there were over 1,500 companies operating under this program employing almost 400,000 workers. The value added to the materials for export by these companies totaled about $1.6 billion in 1987 and an estimated $2.34 billion in 1988.

Most companies in the in-bond industries are located just south of the United States border although a few, with government encouragement, have established operations in the interior of the country. Baja California, Quintana Roo, and a 13 mile strip along the border are duty free zones where customs duties are waived on imports of equipment, raw materials and some other merchandise unless they are shipped to other parts of the country. For in-bond companies outside of the zones, permits are granted to import machinery and parts duty-free provided they are re-exported or incorporated into export products. The Mexican government plans to issue soon a new decree to simplify operational requirements and allow greater integration with Mexican producers for companies operating in the in-bond sector.

b) Frontier Strips and Free Zones

Special incentives are available to companies which set up manufacturing plants in frontier strips (within 13 miles of the northern or southern borders) and the free zones which include both states on the Baja California peninsula, Quintana Roo, and the northern part of Sonora bordering on the United States. Companies in these areas may obtain up to 100 percent reduction of import duties on machinery, equipment, spare parts, and raw materials for a maximum of 10 years from the time they begin operations. To qualify, companies must manufacture products not produced elsewhere in Mexico. In-bond companies are sometimes able to obtain permission to sell 20 percent or more of their output in Mexico. In such instances, however, they must pay duties on imported inputs.

Mexico also has two free ports, Puerto Mexico (Coatzacoalcos) and Salina Cruz. The free ports are exempt from customs laws and companies may undertake assembly and finishing operations utilizing duty free imported machinery and inputs.

I. The Exchange Rate and Exchange Regulations

Mexico has three exchange rates. The controlled exchange rate applies to most exports and imports, debt payments, and in-bond industry receipts. The official free rate is the rate commercial banks use to buy and sell dollars. The private free rate is the rate offered at the exchange houses. The government kept the difference between the controlled and free rates below one percent throughout 1988 and for the first quarter of 1989. In April, the difference crept above one percent, where it has remained through early June.

For most of 1988 the exchange rate of the peso against the U.S. dollar was stable. It was frozen on March 1, 1988 and held steady through the end of the year as part of the anti-inflation program to keep down the price of imports and to avoid the inflationary impact on non-traded goods which usually follows a devaluation in Mexico. In the controlled market the peso appreciated in real terms (i.e., taking into account inflation rates in the United States and Mexico) by about 29 percent against the U.S. dollar in 1988 and by about 24 pefcent against the basket of currencies of its major trading partners.

At the end of 1988 the Mexican authorities decided that further appreciation of the currency was undesirable. Thus, as part of the Pact for Economic Growth and Stability they decided the peso would be devalued, on average, one peso a day against the dollar from January 1, 1989 to March 31, 1990. For the year 1989 this would represent a a decline of about 16.2 percent. So far this year the controlled peso has depreciated slightly against the U.S. dollar in real terms (about 2.2 percent through May).

In general, capital and investment transactions, remittances of dividends, royalties and technical service fees and travel expenses are handled through the free market. There are no restrictions on remittances of dividends. Foreign currency is generally made available at the controlled rate only for repayments of certain debts to foreign creditors and for most imports. Exporters of most products must convert their foreign exchange at the controlled rate.

Annex A

May 1989 Regulations of the Law to Promote Mexican Investment and Regulate Foreign Investment

These Regulations, published in the Official Gazette on May 16, 1989, are summarized as follows:

Title 1
The Foreign Investment Regime

-- Definitions of words and phrases in the regulations.

-- Applications by foreign investors to the Foreign Investment Commission must be acted upon within 45 working days. If this term expires and the Executive Secretary has not issued a ruling, the application is deemed to have been approved.

Title 2
Foreign Investment - General Economic Activities and Investments by International Financial Development Institutions

-- Automatic Majority Foreign Ownership is approved to foreign investors meeting the following criteria:

(a) A maximum of $100 million in fixed assets (the figure will be periodically adjusted).

(b) Investments must be made with financial resources from abroad obtained by capital contributions from the partners or shareholders or by loans granted by foreign companies or by credit institutions with resources obtained abroad. The paid-in capital stock shall be in a minimum amount equal to 20 percent of the total investment in fixed assets at the end of the preoperational period.

(c) The location of the investment must be outside of the geographic zones of greatest industrial concentration subject to controlled growth (i.e., outside of Mexico City, Guadalajara, and Monetrrey).

(d) Companies must maintain as a minimum a balanced accumulated foreign currency budget during the first three years of operation.

(e) Companies must establish permanent jobs and training for workers.

(f) Companies must utilize adequate technology and observe ecology laws.

-- Automatic majority foreign ownership is also given to enterprises incorporated in in-bond industries and other export activities. (New special rules will be coming out regarding these activities.)

-- NFIC approval is required for foreign investors to acquire shares of fixed asssets of companies whenever, as a result of the acquisition in question, total foreign invetment in the company exceeds 49 percent of the capital stock or the fixed assets except in cases where invetors meet the criteria in the foregoing sections of Title 2 (i.e., companies meet (a)-(f) above or are in in-bond industries).

-- Investments carried out by international financial development institutions shall not be deemed foreign investment if they transfer the shares in a term of not more than twenty years (the previous limit was 10 years) from the date of acquisition and they do not enter into restrictive agreements or clauses.

Title 3
Foreign Investment Through Trusts

-- NFIC approval of trusts is required only when foreign investors acquire more than 49 percent interest in a company.

-- The NFIC may authorize foreign investors and companies to acquire "beneficiary rights in trusts" covering shares representing capital stock of companies with a "charter excluding foreigners" that own property in the restricted zone (the strip of Mexican territory one hundred kilometers wide that runs along the borders and the strip 50 kilometers wide that runs along the coasts of the country). The authorization may be granted in cases where the Mexican company is facing severe financial difficulties or needs capital investment to increase exports. Maximum life of the trust would be 20 years.

-- The NFIC may authorize foreign investors to participate in special trust funds that can acquire shares of companies listed on Mexican stock exchanges. The acquired shares would be "neutral shares" and cover only monetary rights derived from the shares (i.e., foreign investors could participate in the profits but not in administration or control).

-- A permit from the Ministry of Foreign Relations is not required for most trusts acquiring real property in non restricted areas or in restricted areas when the real property is used for tourism or industrial activities.

Title 4
Expansion of Foreign Investments

-- Foreign investors (already established in Mexico) that intend to open and operate new industrial, sales or services establishments will generally require NFIC approval unless they meet the criteria outlined in Title 2.

Title 5
Incorporation of Companies and Amendment of Their By-laws

-- Foreign Relations Ministry approval is required for the incorporation of companies. Companies with current or future foreign partners must formally agree with the Ministry to be considered as Mexicans with respect to the shares of such companies and not to invoke the protection of their governments (i.e., the Calvo Clause will continue to apply).

-- Foreign Relations Ministry approval in required for amendment of By-laws of Companies only when:

(a) A "clause excluding foreigners" is added to the by-laws or a waiver of the agreement described under the first point in Title 5 (i.e., a waiver of the Calvo Clause is requested).

(b) The corporate name is changed or amended.

Title 6
Purchase and Rental of Real Property

-- A Foreign Relations permit is required for the acquisition by foreign investors of real property in Mexico outside of the restricted zone (within 100 kilometers of the border or 50 kilometers of the seacoast). No permit is required for foreign firms to rent real property outside of this zone for a period up to 10 years.

Title 7
Promoting Foreign Investment

-- This title sets up a national director of Mexican investors interested in joint activities with foreign investors and sets up a committee with public, community and private sector participation to promote foreign investment in Mexico.

Title 8
The Mexican Foreign Investment Registry

-- This title outlines the procedures for registering foreign investments in Mexico. In general this is a straight forward rather than onerous procedure.

Title 9
The National Foreign Investment Commission

-- The Commission shall be comprised by the heads of the Government, Foreign Relations, Treasury, Programming and Budget, Energy, Mines and Parastate Industry, Commerce and Industrial Development and Labor Ministries. For the Commission to meet the attendance of at least five of its members is required. The members may be represented by a Committee of representatives comprised by the General Bureaus of the member Ministries. The Commission shall also have an Executive Secretary and a Technical Secretary.

-- The Committee of Representatives shall have the authority to:

(a) Issue opinions and prepare recommendations to the Commission concerning the projects specified that were not approved by said Committee for the Commission to make the appropriate resolution.

(b) Prepare the annual labor program and submit it for the Commission's consideration in coordination with the Executive Secretary.

(c) Prepare studies concerning the legal and administrative regulations of foreign investments in Mexico in order to provide amendments that allow a greater influx of investments into the country and appropriate regulation of such investment.

Transient Provisions

The following laws are hereby abrogated:

I. The "Regulations of the Organic Law of Section I of Article 27 of the Federal Constitution", published in the Official Gazette of the Federation on August 29, 1926.

II. The "Regulations of the Mexican Foreign Investment Registry", published in the Official Gazette of the Federation on December 28, 1973.

III. The "Decree for the Foreign Relations Department to grant licenses or authorizations regarding the incorporation or amendment of the by-laws of the companies mentioned", published in the Official Gazette of the Federation on July 2, 1970.

IV. The "Resolution Authorizing the Foreign Relations Department to grant Mexican credit institutions permits to require the ownership of real property engaged in conducting industrial or tourist activities along borders and coasts as trustees", published in the Official Gazette of the Federation on April 30, 1971.

V. The "General Resolution that Systematizes and Updates the General Resolutions Issued by the Mexican Foreign Investment Commission", published in the Official Gazette of the Federation on February 3, 1988.

The following laws are derogated:

I. Article 15 of the "Regulations of the Law Regulating Article 27 of the Federal Constitution in the Field of Petroleum Concerning Petrochemicals", published in the Official Gazette of the Federation on February 9, 1971.

II. Articles 126, Section II, 127, Sections I, II and III, and 131 of the "Regulations of the General Population Law", published in the Official Gazette of the Federation on November 17, 1976.

III. All the general administrative provisions that establish obligations, restrictions or requirements for foreign investments or companies in the capital stock of which foreign investors hold an interest.

Annex 9

Share of Foreign Investment Allowed in Various Types of Economic Activities

(Classified according to the Mexican Classification of Economic and Productive Activities).

ACTIVITIES EXCLUSIVELY RESERVED TO MEXICAN GOVERNMENT PARTICIPATION

Extraction of oil and natural gas
Extraction of uranium and radioactive minerals
Manufacturing of basic petrochemical products
Oil refining
Uranium and nuclear fuels treatment
Coins manufacture
Generation and transmission of electric power
Electric power supply
Railroad transportation
Telegraphic services
Banking services
Financial trusts and funds

ACTIVITIES EXCLUSIVELY RESERVED TO MEXICAN INVESTORS

Forestry
Exploitation of woods
Retailing of liquid gas fuels
Building materials transportation services
Transportation movers (shippers) services
Other specialized cargo transportation
General cargo transportation services
Passenger bus transportation services
Urban and suburban passenger bus transportation services
Taxi transportation services (automobile type)
Fixed route taxi transportation services
Special taxi transportation services (automobile type)
School and tourism bus transportation services
Maritime coastal transportation shipping services
Coastal and sea towing services
Mexican flag aircraft transportation services
Airtaxi transportation services
Credit unions
General deposit warehouses
Stock exchange houses
Financial Counseling and Development Commissions
Non-Banking institutions for savings and loans
Other credit institutions
Stock exchange houses services
Investment societies services

Services for the Stock Exchange
Services for financial institutions
Services for insurance institutions
Services for independent pension plans
Private transmission of radio programs
Transmission and repetition of television programs
Public notary services
Customs brokers and representation services
Administration of sea and river ports

ACTIVITIES THAT ALLOW UP TO 34 PERCENT FOREIGN INVESTMENT PARTICIPATION

Extraction/processing of coal
Extraction/processing of iron ore
Extraction/processing of phosphoric rock
Sulphur exploitation

ACTIVITIES THAT ALLOW UP TO 40 PERCENT FOREIGN INVESTMENT PARTICIPATION

Manufacturing of secondary petrochemical products
Manufacturing of parts and accessories for automotive electrical systems.
Manufacturing and assembling of automobile and trailer bodies
Manufacturing of motors and parts for automobiles and trucks
Manufacturing of parts for the transmission system of automobiles and trucks
Manufacturing of parts for the suspension system of automobiles and trucks
Manufacturing of parts and accessories for the braking systems of automobiles and trucks
Manufacturing of other parts and accessories for automobiles and trucks

ACTIVITIES THAT ALLOW UP TO 49 PERCENT FOREIGN INVESTMENT PARTICIPATION

Ocean fishing
Coastal fishing
Fresh water fishing
Aquaculture
Extraction and/or refining of ores with gold, silver and other mineral or precious metal content
Extraction and/or refining of mercury and antimony
Extraction and/or refining of industrial ores with lead and zinc content
Extraction and/or refining of copper content ores
Extraction and/or refining of non-ferrous metallic ores
Exploitation and/or refining of feldspar

Exploitation of lime
Extraction and/or refining of barite
Extraction and/or refining of fluorite
Exploitation of ores for the obtention of chemical products
Extraction and/or refining of salt
Extraction and/or refining of graphite
Extraction and/or refining of other non-metallic minerals
Manufacturing of explosives and fireworks
Manufacturing of firearms and cartridges
Retailing of firearms, cartridges and ammunitions
River and lake transportation services
Harbor transportation services
Telephone services
Other telecommunications services
Financial leasing

ACTIVITIES THAT CAN HAVE MORE THAN 49 PERCENT FOREIGN INVESTMENT PARTICIPATION, SUBJECT TO THE AUTHORIZATION OF THE FOREIGN INVESTMENT COMMISSION OF SECOFI

Agriculture
Cattle breeding and hunting
Collection of forestry products
Felling of trees
Newspaper and magazine publishing
Manufacturing of coke and other products derived from coal
Housing construction
Non-housing residential construction
Construction of urban works
Construction of industrial plants
Construction of power generation plants
Construction and erection of electrical transmission networks and lines
Construction for the transmission of oil and its derivatives
Mounting and installation of concrete structures
Mounting and installation of metal structures
Maritime works
Construction of traffic works and land transportation
Construction of railways
Hydraulic and sanitary installations in buildings
Electrical installations in buildings
Telecommunications installations
Other special installations
Earth moving
Foundations
Underground excavations
Underwater construction
Signals and protection installations
Demolitions
Construction of potable water and water treatment plants

Drilling of oil and gas wells
Drilling of potable water wells
Other construction works not mentioned above
High seas transportation services
Leasing of tourism ship services
Services for companies that manage investment societies
Private kindergarten services
Private elementary school services
Private high school services
Private college school services
Private university services
Private education services that combine kindergarten, elementary, high school, college and university
Private commercial and language school services
Private technical, arts and crafts, and labor training school services
Private music, dance and other school services
Private special education school services
Legal services
Accounting and auditing services
Passenger buses central stations' administration and auxiliary services
Administration of toll highways, international bridges and auxiliary services
Towing services for land vehicles
Other services related to land transportation not mentioned above
Air navigation services
Airport and heliports administration services
Stock and investment consulting services
Insurance and bond, agent and attorney services
Pension consulting services
Services for representational offices of foreign financial entities
Other services related to financial, insurance and bonds institutions not mentioned above

EXCEPTIONS TO FOREIGN PARTICIPATION BY TYPE OF ACTIVITIES

FISHING - Whenever the investment society is for fixed income, it is reserved for Mexicans only.

PRINTING, EDITORIAL AND RELATED INDUSTRIES, will be allowed to have foreign investment as authorized by the Foreign Investment Commission. However, the professional staff, as covered by the Law of the Third Constitutional Article on Professional Matters, must be Mexican.

COKE INDUSTRY, INCLUDING COAL AND OIL DERIVATIVES - The production of basic oil is exclusively reserved to the Mexican Government

COMMUNICATIONS - Services rendered by the Mexican Government are not allowed to have foreign investment participation.

INVESTMENT SOCIETIES SERVICES and SERVICES TO OPERATE SOCIETIES FOR INVESTMENT SOCIETIES - Fixed income investment societies are exclusively reserved for Mexicans.

PROFESSIONAL, TECHNICAL AND SPECIALIZED SERVICES, EXCLUDING AGRICULTURAL SERVICES - The societies will be allowed to have foreign investment as authorized by the Foreign Investment Commission. However, the professional staff regulated by the Reglamentary Law of the Third Constitutional Article on Professional Matters, should be Mexican.

Annex C

Registration of Foreign Investment and Transfers of Technology

All contracts and agreements which provide for the transfer of technology to Mexico must be registered, if they provide for any of the following:

1. Authorization of the use or sale of trademarks.
2. Authorization of the use, exploitation or sale of patents or certificates of invention, improvements, models, and industrial drawings.
3. The supply of technical know-how by means of plans, diagrams, models, instructions, formulas, specifications, training of personnel, and other methods.
4. Supply of basic engineering or details for carrying out installations or the manufacture of products.
5. Technical assistance, regardless of manner in which provided.
6. Services of management or administration.
7. Advisory services, including consulting and supervision when rendered by foreign individuals or corporate entities or their subsidiaries, regardless of domicile.
8. Authorization of the use of author's rights, which imply their industrial use, except as regards the editorial, movie, recording, radio, and television fields.
9. Computer programs.

Annex D

List of High Priority Industries
For Foreign Investment
As Published in February 1984 Press Release

Machinery and Non-Electric Equipment

- Agricultural machinery and implements.
- Woodworking machinery.
- Food processing and packaging machinery.
- Machinery for petroleum and petrochemical industries.
- Textile machinery.
- Extruding and molding machinery for the plastics industry.
- Machinery for the graphic arts industry.
- Cranes, pulleys, and similar equipment.

Machinery and Electric Apparatus

- High power motors and generators.
- Turbines for industry.
- High power turbocompressors.

Metal-Mechanics

- High technology metallurgy.
- High precision instruments for microsmelting.
- Specialized equipment.

Electronic Equipment and Accessories

- Telecommunications equipment.
- Magnetic tapes and disks for computers.
- Computer systems, parts and components.
- Instrumentation and process control equipment.
- Electronic components, parts and elements.
- Electronic equipment and apparatus for engineering and science.
- Consumer electronics.

Transportation Equipment

- Motorcycles and similar vehicles with over 350 cc engine displacement.
- Internal combustion engines for vessels and locomotives.
- Ship construction and repair.

Chemical Industry

Raw materials and active pharmaceutical substances.
Synthetic resins and plastics.
Chemical specialties.

Other Manufacturing Industries

Precision measuring apparatus.
Medical equipment and instruments.
Photographic material and equipment.
New high technology materials.

High technology services

Biotechnology.

Hotel Industry

Construction and operations related to real property for the hotel industry.

Annex E

Methodologies for Calculating Foreign Investment

The Mexican government uses two different approaches for calculating foreign investment:

- -- The Bank of Mexico definition of foreign investment includes four concepts which show annual flows and when combined show the net increase in foreign investment in a given year. For example, the flows for the periods shown were (in millions of dollars):

	1987	1988
New Direct Foreign Investment	3,247.6	2,594.7
New Investments	2,910.9	2,410.0
Reinvestments	481.4	563.7
Accounts with parent companies	-144.7	-379.0
Purchases of foreign companies	0	0

- -- The definition of foreign investment by the National Foreign Investment Commission is quite different: it includes investments authorized by the Commission. This figure usually is much larger than actual flows, both because of a natural lag time and because in some cases this investment does not materialize or is smaller than authorized. In 1988, authorized investments were about $3.2 billion and in 1987 they were about $3.9 billion. Total cumulative authorized investment through the end of 1988 was $24.08 billion.

Annex F

Cumulative Flow of Direct Foreign Investment as Measured by the National Foreign Investment Commission (Millions of Dollars)

Year	New Investment	Percent Change	Cumulative Direct Foreign Investment	Percent Change
1973	287.3	51.3	4,359.5	7.1
1974	362.2	26.1	4,721.7	8.3
1975	295.0	-18.6	5,016.7	6.2
1976	299.1	4.1	5,315.8	6.0
1977	327.1	9.4	5,642.9	6.2
1978	383.3	17.2	6,026.2	6.8
1979	810.0	111.3	6,836.2	13.4
1980	1,622.6	100.3	8,458.8	23.7
1981	1,701.1	4.8	10,159.9	20.1
1982	626.5	-63.2	10,786.4	6.2
1983	683.7	9.1	11,470.1	6.3
1984	1,442.2	110.9	12,899.9	12.5
1985	1,729.0	19.9	14,628.9	13.4
1986	2,431.1	40.6	17,060.0	16.6
1987	3,870.0	59.2	20,930.0	22.7
1988	3,150.0	-18.6	24,080.0	15.1

Annex G

Priority Development Zones

The priority development zones were established in a 1979 decree. In general they encourage industry along the seacoasts and border areas so as to promote exports. Areas included in the various zone categories are as follows:

Zone	Description
IA.	Preferential benefits for development of industrial port areas, which include Lazaro Cardenas (Michoacan), Salina Cruz (Oaxaca), Tampico (Tamaulipas), Coatzacoalcos (Veracruz) and many contiguous municipalities.
IB.	Preferential benefits for urban industrial development, including 99 municipalities in 20 states largely concentrated on the Pacific Coast, the Isthmus of Tehuantepec, the Reforma oil fields, certain areas on the Gulf Coast, 18 municipalities in the northern border strip, and a few semi-industrialized areas in the central part of the country but excluding Guadalajara, Monterrey and Mexico City.
II.	State priority areas. Municipalities in this zone will be selected in agreements between the Federal Government and each state government.
IIIA.	Area of controlled growth. Mexico City (the Federal District) and 22 surrounding municipalities in the State of Mexico, plus one in Hidalgo. There will be no encouragement of growth in this zone.
IIIB.	Area for consolidation, with only limited encouragement of expansion of existing companies, comprising 144 municipalities in the States of Hidalgo, Mexico, Morelos, Puebla and Tlaxcala surrounding Zone IIIA.

Annex H

National Register of Foreign Investment

Included in the Register of Foreign Investment is the following information:

1. Individuals and companies who make investments regulated by this law.
2. Mexican companies which are majority foreign owned or controlled by foreigners.
3. Real estate trusts with foreign participation.
4. Certificates of capital stock owned by foreigners and transfers of these certificates.
5. Resolutions taken by the Commission.

Unregistered companies are not allowed to pay dividends.

Annex I

Depreciation Rates for Various Types of Assets Under the 1986 Tax Law

First Year Depreciation (Percent)	Type of Activity
36	Electrical energy production and distribution; electronic transport equipment.
51	Buildings, grain mills, sugar production, cooking oil, maritime and river transport.
56	Railroads, railroad cars, locomotives; metal production, tobacco products, coal.
61	Pulp and paper fabrication, petroleum and natural gas.
63	Automobiles and parts, construction facilities for building railroad cars and ships, scientific and professional machinery and instruments, food and beverage production except grains, sugar and cooking oil.
67	Fabrication and curing of leather, chemical products, petrochemicals, pharmacobiological products, rubber and plastics, printing and publishing.
69	Articles not otherwise specified.
71	Clothing and textile fabrication, busses.
73	Airplane construction, land transport companies for passengers and cargo.
79	Air transport companies, radio and television transmission, airplanes other than for agricultural fertilization.
81	Automobiles, cargo trucks, tractor trailers.
84	Construction industry including automobiles, trucks and tractor trailers, airplanes for agricultural spraying, agricultural activities, cattle raising, fishing, machinery and equipment for storage, computation, quality and inventory control, machinery with electronic circuits.

87 Dies for stamping coins and metals, equipment to control atmospheric contamination, equipment to investigate new developmental or technological products.

93 Property for raising livestock and vegetables.

Annex J

Major Imports and Exports (1988)

Exports	(Millions of Dollars)
Crude oil	5,883
Manufactured products	12,381
(a) Food, beverages and tobacco	1,369
(b) Petroleum derivatives	617
(c) Chemical products	1,397
(d) Steel and metallurgical products	1,575
(e) Automobiles and parts	3,382
Agricultural products, cattle, forestry	1,369

Imports	(Millions of Dollars)
Agricultural products, cattle, forestry	1,766
Manufactured products	16,746
(a) Food, beverages, tobacco	1,232
(b) Chemicals	1,882
(c) Steel Products	1,088
(d) Transport and communications equipment	2,421
(e) Special machinery and equipment	3,606
(f) Electronic equipment	1,959
Extractive industries	323

Annex K

Foreign Direct Investment Statistics

While still a relatively small share of total investment in the economy, authorized direct foreign investment more than quadrupled between 1976 and 1988 from $5.3 to $24.08 billion. In both 1987 and 1988 the dollar value of new foreign investment authorizations reached record levels, totaling over $7 billion for these two years. At the end of 1988 there were an estimated 8,420 companies with operations established in Mexico.

As to the composition of foreign investment, between 1983 and 1988 about 69.4 percent was in industry, 22.7 percent in services, 6.2 percent was in trade, 1.6 percent in extractive industries and 0.1 percent was in agriculture and cattle breeding. The major supplier countries included the United States with 62.1 percent of the total, the U.K. with 7.3 percent, West Germany with 6.6 percent, Japan with 5.5 percent, Switzerland with 4.2 percent, and France 3.1 percent. (Source: Foreign Investment Promotion Office, Secretariat of Commerce and Industrial Development). About two-thirds of all foreign investment in the country is concentrated in the Mexico City area. Among the Latin American countries Mexico has the second largest amount of direct foreign investment, exceeded only by Brazil.

Annex L

MAJOR FOREIGN INVESTMENTS IN MEXICO

Name of Enterprise	1987 Rank*	Type	Origin of Capital	Percent Foreign Owned
Chrysler de Mexico, S.A.	2	Automotive	U.S.A.	99.99
General Motors de Mexico	3	Automotive	U.S.A.	100
Ford Motor Company, S.A.	5	Automotive	U.S.A.	100
Volkswagen de Mexico	8	Automotive	F.R.G.	100
Celanese Mexicana	10	Artificial Fibers	U.S.A.	40
Kimberly-Clark	12	Paper and Celulose	U.S.A.	45
IBM	14	Electronics	U.S.A.	100
Industrias Resistol	17	Petrochem.	U.S.A.	39.2
Compania Nestle	13	Food	Swiss	100
American Express	22	Financial Services	U.S.A.	100
Spicer	29	Autoparts	U.S.A.	33
Ericcson (Mexico)	33	Electronic	Sweden	73

* 500 Largest Enterprises in Mexico in 1987, Expansion Magazine, August 17, 1988.

Annex M

History of Foreign Investment In Mexico

Conditions for the entry of foreign investment into Mexico were first established during the Juarez Administration (1858-72). Juarez was interested in using foreign capital to help develop the Mexican economy but his attitude toward foreign investment was influenced by a strong nationalistic sense and a desire to protect the country from any potential foreign economic dominance.

Foreign investment did not begin to flow into Mexico in significant amounts until the Porfirio Diaz administration (1876-1910). He strongly encouraged foreign investment in Mexico and by 1911 it had reached $1.4 billion. However, the revolutionary period (1910-1925) changed this favorable atmosphere dramatically and little new external capital entered the country. The civil guarantees in the Constitution of 1917 included foreign investors but limited foreign ownership of land and the rights of foreigners to work and engage in business in Mexico. Article 27 of the Constitution provides that ownership of certain real property belongs to the nation, which has a right to transfer such ownership to private persons. Although foreigners have the right to own property in Mexico, in order to do so they must renounce the right to invoke the protection of their government should any conflict arise concerning such property (the so-called Calvo Clause).

Between 1926 and 1940 most large foreign-owned agricultural investments were expropriated. In 1937 foreign-owned railways were also expropriated as was the foreign-owned oil industry in the following year. (With the exception of one case during the Echeverria administration there have been no expropriations in recent years.)

Little foreign investment entered Mexico during the years of the Second World War. During that period the precursor of Mexico's current legal system of regulations related to foreign investment was enacted in the form of the emergency decree of 1944, which granted wide discretionary controls over foreign capital to the Secretariat of Foreign Relations (SRE). This decree was intended to deal with wartime capital flight, but the repercussions extended well beyond the war years. It introduced restraints on the establishment or modification of Mexican companies with foreign shareholders. Furthermore, it was subsequently used to exercise control and influence over direct foreign investment as SRE established conditions for new investments in the country. In 1945 the Secretariat established a requirement for a minimum of 51 percent Mexican capital for the radio, film, fishing, advertising, domestic air, and highway transport industries. Two years later a mixed intersectoral commission of seven members was set up to help coordinate national and foreign investment. It soon established the 51 percent rule for the bottling and rubber industries.

The period 1949 through 1957 was a favorable one for foreign investment. The largest growth, particularly from the United States, was in the manufacturing sector. During this period average annual foreign investment flows reached $78 million, more than double the figure for the immediate post war years. After that time, foreign investment continued to grow, albeit at a more moderate pace.

In 1960 the timber industry was reserved exclusively for Mexicans. In 1961 foreign ownership in mining was limited to 49 percent and in the case of some strategic minerals to 34 percent. In 1965 legislation was enacted to limit foreign equity participation in banking, insurance, and bonding businesses. In 1970 tighter restrictions were imposed on new foreign investments in steel, cement, glass, fertilizers, paper, and aluminum. Any expansion of companies in those areas required a permit from SRE as did the sale of majority interest to foreigners. The 1973 Foreign Investment Law generally limited non-Mexicans to minority ownership in Mexican companies. Finally, the nationalization of the country's commercial banks in 1982 sent a discouraging signal to potential investors.

Since the beginning of the De la Madrid Administration in December 1982 the Mexican government has generally taken a favorable attitude toward foreign investment and this has been accelerated since President Salinas took office at the end of 1988. Approvals of new projects have grown rapidly, especially between 1985 and mid-1989. The government's debt-equity swap program begun in mid-1986 was highly successful in attracting investors. Additionally, new rules accelerating the approval process for new investments have been a favorable development. On the other hand, restrictive decrees still exist in the automotive and pharmaceutical sectors, and, in practice, investment in the computer and trade in computers are also restricted. Additionally, intellectual property rights remain a contentious issue affecting foreign investors. The Mexican government is currently considering actions to help deal with these problems.

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